Essays in Corporate Spinoff Incompletion

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ABSTRACT

Essays in Corporate Spinoff Incompletion

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The first chapter provides an overall introduction of the thesis. The second chapter includes a review of the extant literature related to the determinants and wealth effects of completed corporate spinoffs, their board structure, and the information environment surrounding such transactions. Prior studies examine different aspects of determinants and consequences of *completed* spinoffs. Building on existing knowledge, we aim to explore the determinants and outcomes of the *incomplete* population in the following chapters.

The third chapter focuses on the performance and board composition of parent firms with completed and incomplete spinoffs. Using a sample of 1,526 corporate spinoff announcements from 1980 to 2016, we find that both market and accounting performances decline in firms with incomplete spinoffs at a higher rate than those completing the transaction. We establish that spinoff incompletion is value deteriorating and performance damaging for parent firms over the long run. Key findings indicate that parent firms with CEO duality are more likely to leave their spinoffs incomplete, while firms with older board members, longer tenure, more independent members, and smaller boards are more likely to complete their spinoffs. Moreover, in the subsample of incomplete spinoffs, firms with more independent board members, larger boards, more gender-diversified boards, and boards with older members and longer tenure are less likely to abandon the spinoff without any official withdrawal announcement.

The fourth chapter provides evidence on the predictive powers of holding a conference call (Call) as well as its sentiment. Using a sample of 700 announced corporate spinoffs from 2002 to 2016, we show that firms that have a call at the time of announcement are more likely to complete the spinoff eventually. Also, supporting the impression management hypothesis of calls sentiment, we find that calls with more *positive* sentiment are more likely to stay incomplete. Approval on the tax-free status of an announced spinoff has significant power in predicting its completion. Moreover, firms' board composition and market reaction to spinoff announcement play a significant role in spinoff incompletion likelihood. Finally, the fifth chapter concludes the thesis findings and provides an overall interpretation and contributions of this research.

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Dedication

To Sam, for being the best supportive partner,

To my parents, for their inspirations.

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Chapter 1: Introduction to the thesis

Corporate spinoffs are one of the strategic restructuring decisions that improve the performance of parent firms[1], yet about 40% of all US announced spinoffs are left incomplete.[2] Despite the significant portion of incompletion in these announced transactions, there are only two prior studies in this literature (Alli, Ramírez, & Yung, 2001; Harris & Madura, 2011). This thesis aims to show the value-relevancy of spinoff incompletion and the influential factors around such phenomenon.

To present a general understanding of the current state of the literature, chapter two delivers a review of prior studies related to determinants of corporate spinoffs and the long-term performance of parent firms after the spinoff completion. The literature review process reveals a gap in our understanding of the long-term impact of corporate spinoff incompletion on parent firms. Since firms announce the spinoffs to the public after the board of directors' approval, it is essential to learn from the existing knowledge on the role of different board attributes on the spinoff decision. Our review of prior research illustrates missing evidence on the importance of board composition in the subsample of incomplete spinoffs. Finally, spinoffs are publicly announced to the market through a press release like any other corporate strategic decision. In some cases, firms hold a conference call along with the press release. A review of prior literature shows the informativeness of holding a conference call and the signaling impact of its sentiment. Our review of previous studies shows no research finding on the role of conference calls and their sentiment on the probability of spinoff incompletion. In the following two chapters, we aim to provide empirical evidence to fill the literature gaps mentioned above.

Chapter three examines whether spinoff incompletion has any impact on parent form's long-term performance. In addition, this chapter studies the role of different board characteristics in predicting the likelihood of spinoff incompletion. We compare the long-term performance of before and after spinoff announcements between completed spinoffs versus incomplete ones using

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[1] (See Ahn & Denis, 2004; Allen, 2001; Allen et al., 1995; Aron, 1991; Berger & Ofek, 1995; Burch & Nanda, 2003; Cusatis, Miles, & Woolridge, 1993; Daley, Mehrotra, & Sivakumar, 1997; Desai & Jain, 1999; Feng, Nandy, & Tian, 2015; Habib & Johnsen, 1997; Krishnaswami & Subramaniam, 1999; Lee & Madhavan, 2010; Nanda & Narayanan, 1999; Patro, 2008; Schipper & Smith, 1983; Wruck, & Eric G., Wruck, 2002).

[2] During 1980–2016, a total of 1,900 US corporate spinoffs were announced of which 1,167 eventually got completed, 290 were officially withdrawn, and 443 were neither withdrawn nor completed (source: SDC Platinum).

earnings before interest, taxes, depreciation, and amortization (EBITDA)/Sales.[3] Furthermore, we examine the BHAR of the two groups of spinoffs using in-sample and out-of-sample matching techniques for up to five years after the spinoff announcement. We also compare the BHAR between *Abandoned* spinoffs and those officially *Withdrawn* in the subsample of incomplete spinoffs.[4] Our results show that both accounting and market performances are significantly better in the completed spinoffs compared to the incomplete ones. We then continue our analyses on the role of board composition and the association of each board attribute with the probability of spinoff incompletion. Our findings show that board independence, CEO duality, the board size, board gender diversity, board tenure, and board members' average age are significant factors influencing the probability of spinoff incompletion.

Chapter four examines the information environment around spinoff announcement to ex-ante predict the likelihood of spinoff incompletion. Holding a conference call is an extra effort from the top management team to communicate with the outsiders. In addition, the exposure to random questions from the audience, the ratio of positive to the negative tone of words used in the conference call either supports the positive prospects of the spinoff transaction or reveals managerial intention to utilize a positive tone to influence the market perception about this decision. To our knowledge, no other study has analyzed the role of the information environment in the probability of spinoff incompletion. Using a sample of 700 US corporate spinoffs announced from 2002 to 2016, we examine the explanatory role of conference calls and their sentiment in predicting the likelihood of spinoff incompletion. We employ content analysis techniques to measure the ratio of positive to the negative tone of all the conversations in each Call[5]. We find that firms that hold a conference call with their announcement of the spinoff decision are less likely to leave the spinoff incomplete. Moreover, a higher ratio of positive to negative tone is associated with a higher probability of spinoff incompletion. Put together, the findings in this thesis illustrate

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[3] As a robustness check, we examine EBITDA/Assets as another accounting measure. The results, not reported in this manuscript, show similar findings as those of EBITDA/Sales.

[4] *Withdrawn* spinoffs are those that are announced but after a while are canceled with an official announcement. On the other hand, *Abandoned* spinoffs are those that are announced but neither get completed nor have any official withdrawal announcement for at least 458 days after the announcement date.

[5] We use the Linguistic Inquiry and Word Count (LIWC) software by Pennebaker, Francis, and Booth (2001) for word recognition and count the total number of words in transcripts as well as our sentiment-related word lists.

the importance of corporate spinoff incompletion for shareholders and provide some ex-ante signals to predict the probability of this outcome.

Chapter 2:   Overview of Corporate Spinoff Literature

2.1   Introduction

This chapter provides a review of the extant literature related to the determinants and wealth effects of completed corporate spinoffs, their board structure, and the information environment surrounding such transactions. Prior studies examine different aspects of determinants and consequences of *completed* spinoffs. Building on existing knowledge, we aim to explore the determinants and outcomes of the *incomplete* population in the following chapters.

2.2   Determinants of Corporate Spinoffs

A corporate spinoff is a transaction where shares of a subsidiary are distributed to the parent firm's shareholders on a pro rata basis. After spinoff completion, the parent firm's shareholders hold shares in both the parent and the spun-off subsidiary without exchanging any cash. Shareholders then have the option to keep both shares or sell either of them. Unlike other corporate restructuring transactions such as carve-outs, spinoffs are not motivated by the parent firm's cash needs. Even without the cash benefits, corporate spinoffs can improve parent firms' value. Corporate spinoffs create a flexible scenario for shareholders to benefit from high dividends and high growth opportunities in the parent and spun-off unit (Hakansson, 1982).

Various theories support the spinoff decision. Based on the Agency Theory, corporate spinoff reduces both monitoring and bonding costs. Spinoff reduces monitoring costs and releases some of the parent firm's resources as the performance of the unit is no longer under the control of the parent's managerial team. Moreover, disclosure requirements of the spun-off company reduce information asymmetry–driven agency issues. Bonding costs are also reduced as managers of the parent firm no longer consider the interests of the unit in their decision makings, which leads to less conflict in the goals of the parent and its divisions (Bhana, 2004). Reduction in information asymmetry is another main reason behind corporate spinoffs. Since spinoffs separate the divisions into individual companies, shareholders will have less ambiguity about the profitability and future growth of each division (Krishnaswami & Subramaniam, 1999a).

From the viewpoint of Transaction Cost Theory, a firm decides to spin off a unit when the overall costs of that unit outweigh the benefits (Semadeni & Cannella, 2011). Removing poor-

performing subsidiaries and providing higher growth opportunities for the parent firm are other influential factors in a spinoff decision (Patro, 2008; Wruck & Wruck, 2002). In addition, when firms lack strategic fit or synergy among their subsidiaries, spinoff is a viable option to remove the odd subsidiary (Cusatis, Miles, & Woolridge, 1993). Prior studies add that firms engage in spinoff transactions to remove diversification discount, to improve business focus, and to investment efficiency (Ahn & Denis, 2004; Burch & Nanda, 2003; Feng, Nandy, & Tian, 2015).

Finally, firms can benefit from tax and regulatory advantages of spinoffs. Under Section 355 of the United States Internal Revenue Code (IRC) of 1986, a spinoff qualifies as a tax-free transaction if the parent firm holds at least 80% of the voting shares prior to the separation, the parent has no more than 20% of voting shares (i.e., practical control) of the spun-off unit after spinoff completion, the parent and the spun-off unit have active business engagements for at least five years prior to the spinoff announcement, and the purpose of the spinoff decision is based on a business-related reason.

2.3 Parent Firms' Performance after Spinoffs

Empirical findings, in general, show positive short-term and long-term effects of spinoff for the parent and spun-off subsidiaries. The literature so far has analyzed the role of corporate spinoffs in the long-term performance of parent firms in different contexts. Miles and Rosenfeld (1983) show that parents enjoy significant positive abnormal returns when spinoff happens and that this positive effect increases as the size of the spinoff increases. Desai and Jain (1999) show that the parents' long-term stock market performance is positive and abnormal when the spinoff is focus -increasing. Such improvement is also true for operating performance measured by operating cash flow returns on total assets. Allen (2001) focuses on abnormal returns that insiders earn by buying and selling stocks of both the parent and the spun-off unit up to three years after the spinoff. He shows that the buy-and-hold abnormal return (BHAR) for parent stocks reveals some positive excess returns for insiders and outsiders a year after the spinoff. Wruck and Wruck (2002) focus on the parent and target's top management team (chief executive officer [CEO], chairman, and president) and evaluate four cases where top managers come from the parent (leave the parent and come to the spun-off (jumpers], work at both [straddlers], come from a division head position in

the parent) or from outside. They show that parent firms are undervalued before the spinoff, but they become fairly valued afterward.

Bhana (2004) examines South African spinoffs and show that both the parent and the spun-off unit improved their operating performance after the spinoff, and both experience positive abnormal returns in the long term (up to three years post spinoff). McConnell and Ovtchinnikov (2004) focus on the long-term (three years) return of 311 tax-free spinoffs from 1965 to 2000. They show that both the parent and spun-off firms have positive abnormal returns after the spinoff, which is more economically significant for the spun-off companies. Boreiko and Murgia (2016) show that non-focus increasing spinoffs show higher long-term performance than focus-increasing ones, which is in contrast to findings of prior studies by Daley, Mehrotra, and Sivakumar (1997) and Desai and Jain (1999). The overall census of previous research is that after corporate spinoffs, parent firms experience significant improvement in long-term operating and market performance.

2.4 Board of Directors Composition and Spinoff Completion

In practice, corporate spinoffs are mainly urged by internal forces such as independent board members and external powers such as institutional investors and block holders focused on increasing the parent and the subsidiary unit's combined value. When it comes to making the spinoff decision, we know that spinoff is the board's decision. When the management team struggles with multiple divisions and cannot maximize equity value using all of their resources, the board of directors decides to separate part of the firm to improve performance and unlock value. Since the board of directors is responsible for preserving and increasing shareholders' wealth, the board has to analyze the spinoff decision carefully and follow its process until the transaction is completed. Therefore, in cases where spinoff is left incomplete, the analysis of board composition and whether specific board attributes are associated with a higher probability of spinoff completion becomes a thought-provoking research topic. There is no study with any evidence on the relationship between board composition and spinoff incompletion.

In a study by Ahn and Walker (2007), different aspects of corporate governance are examined in relation to the spinoff decision. Using a sample of 219 completed and tax-free spinoffs announced from 1981 to 1997, they compare several board attributes in spinoff parents and non-spinoff matching firms. Their findings on board attributes show a positive relationship between

spinoff and noncorporate directors and CEO duality and a negative association with board size, board gender diversity, and the average age of directors. In theory, the board of directors' composition, such as independence, is also viewed as a significant factor associated with corporate spinoff decisions (Chemmanur & Yan, 2004). Another study by Owen et al. (2010), which focuses on the probability of divestiture decisions, suggests that internal powers such as an independent and large board of directors influence the spinoff decision. Their findings show that parent firms with larger boards and boards with a higher portion of independent directors are more likely to divest.

Parent firms' managers propose such a restructuring plan to the board of directors and receive their approval before announcing the spinoff decision to the market. There is no evidence on the relationship between board composition and spinoff completion in prior research. However, we know from the literature that powerful boards with a large portion of independent members would more likely serve shareholders' interests and persuade managers to make decisions that increase shareholders' wealth. Studies show that board composition and director attributes are associated with the wealth effects of corporate spinoffs.

Board composition and its relationship with deal success/failure have been examined in other literature, such as mergers and initial public offerings (IPOs). Since corporate spinoff is a type of corporate restructuring, the merger literature findings are valuable guidelines for a spinoff study. Moreover, when a spinoff is completed, the new spun-off unit becomes a public company whose shares are traded for the first time after the completion date, which makes this process similar to a standard IPO. Different board attributes such as size and independence are influential in the acquirer's merger decision (Khorana, Tufano, & Wedge, 2007). Specific attributes signal the probability of completion in acquisition bids; for example, if the acquiring company's CEO is the board chairman, there is less likelihood of deal completion (Dasgupta & Gao, 2011). In the context of IPOs, Helbing, Lucey, and Vigne (2019) examine and find different governance characteristics in relationship with the probability of IPO withdrawal. For example, their results show that a higher percentage of independent board members reduce the likelihood of IPO withdrawal. The presumption is that the possible agency issues of IPO withdrawals are reduced by improving governance characteristics.

In Chapter 3 of this thesis, we examine the value relevancy of spinoff incompletion and the role of board composition in this regard.

2.5   Existence and Sentiment of Conference Calls and Spinoff Completion

There are numerous studies in accounting and finance that use textual analysis of different corporate communication mediums. Disclosure channels include news stories in the press (Tetlock, 2007), annual reports (Li, 2008), press releases regarding earnings (Demers & Vega, 2008), analyst reports (Kothari, Li, & Short, 2009), and conference calls (Frankel, Johnson, & Skinner, 1999a). In addition to diversity in analyzing the disclosure channel, prior studies use different approaches to quantify the qualitative information ranging from Bayesian algorithm to dictionaries and word lists (Henry, 2008; Kothari et al., 2009; Li, 2010; Loughran & McDonald, 2011). The qualitative information examined in the literature includes readability (Li, 2008), deceptive language (Larcker & Zakolyukina, 2012), and tone of the disclosure (Davis, Piger, & Sedor, 2012; Davis & Tama-Sweet, 2012; Frankel, Mayew, & Sun, 2010). Regarding the outcomes examined, some studies focus on analysts' response to the qualitative information (Lehavy, Li, & Merkley, 2011), while others investigate market reaction to different disclosure qualities (Davis & Tama-Sweet, 2012; Tetlock, 2007).

Corporate public disclosures include official information from firm insiders who know the most about the firm. Despite the benefits of direct corporate filings, in most cases, the one-sided nature of such disclosures creates the possibility that insiders do not reveal the whole truth about firms' performance. Among all corporate public disclosures, conference calls are unique as they not only provide disclosure by insiders in the presentation portion of the call but also include a two-sided question-and-answer (Q&A) section between managers and outsiders. The sentiment of both sections is useful in examining the qualitative attributes of firms' performance. Although it is not easy to measure the extent of information disclosure in the Q&A part (Healy & Palepu, 2001), the two-way communication and the participants' natural language creates a unique context for deep understanding of the information. Information dissemination through conference calls reduces information asymmetry between managers and outside investors (Frankel, Johnson, & Skinner, 1999b; Kimbrough, 2005).

Brown, Hillegeist, and Lo (2004) show that firms with regular conference calls have economically and statistically significant information asymmetry reductions. Kimbrough (2005) finds that the existence of conference calls benefits firms regarding post–earning announcement drift and market reaction to the delayed earnings announcement, especially for small firms. Bowen, Davis, and Matsumoto (2002a) also show that conference calls increase analysts' accuracy of earnings forecasts. Frankel, Johnson, and Skinner (1999a) provide evidence that conference calls reduce information asymmetry, especially for firms in rapidly growing industries such as high-technology. They show that conference calls offer much more information than press releases for different types of investors.

In addition to the existence of conference calls, the content and tone of the meeting are also important. The sentiment of managerial communication with the market provides insights into the firm's growth plans (Jiang, Lee, Martin, & Zhou, 2019). Some prior research find that managers use tone to misinform investors by masking the firm's weak future financial prospects. Managers' suspicious behavior in depicting their companies' future performance is referred to as the impression management hypothesis (Schleicher & Walker, 2010; Triki, Arnold, & Sutton, 2015). Several recent studies focus on the tone of the disclosure and managers' role in using tone to convey some inside information about the firm's prospects. For example, Davis and Tama-Sweet (2012) show that managers strategically use different tones in their disclosure channels. They find that, depending on the managers' motives and stock price sensitivity, the pessimistic tone is stronger in management discussion and analysis (MD&A) reports than the tone in earnings press releases. Tama-Sweet (2014) finds a positive association between the positive tone of earnings announcements and the CEO's sales of equity. Huang, Teoh, and Zhang (2014) examine the tone of annual earnings press releases and their impact on investor response and perception management. In addition, their findings show that an abnormal positive tone in earnings press releases predicts negative future earnings and cash flows, as well as positive immediate stock price response with a subsequent return.

Language processing techniques in content analysis studies show that the tone companies use in their information disclosure can be a proxy for understandability, visual and structural impacts determination, and organizational outcome, among others (Merkl-Davies & Brennan, 2007). With regard to corporate outcomes, prior studies find that textual tone of press releases and

conference calls is significantly associated with stock return, volatility, and firm performance (Davis, Ge, Matsumoto, & Zhang, 2015; Henry, 2008; Sadique, In, & Veeraraghavan, 2011).

Linguistic information of conference calls is used as a proxy for the nature of the relationship between managers and outside investors (Frankel et al., 2010). There are numerous studies on sentiment analysis of corporate communication in different settings. Strong and positive language reflects confidence and well-planned decisions, whereas weak and uncertain dialogue shows ambiguity in the decision and a lack of well-thought plan (Davis et al., 2015; Huang et al., 2014). Prior studies focus on information asymmetry and the role of media tone and corporate communication channels in changing the performance of firms at the time of other strategic transactions such as Initial Public Offerings (IPOs), Merger and Acquisitions (M&As), and Real Estate Investment Trusts (REITs)[6]. In the context of IPOs, Loughran and McDonald (2013) study the association between S-1 filings' tone and the probability of IPO withdrawal. Their results show a marginal positive relationship between the uncertain/weak modal words and IPO withdrawal. In the context of M&A and earnings calls, a number of studies examine the determinants and informativeness of conference calls (see Fraunhoffer et al., 2018; Kimbrough & Louis, 2011; Siougle, Spyrou, & Tsekrekos, 2014). Sirower and Lipin (2003) explain the importance of corporate communication as the new rule of M&A success from a practical point of view.

Therefore, as another form of strategic initiative in the firm, corporate spinoffs' outcome is related to corporate communication efforts that reduce information asymmetry between insiders and outsiders. A well-done communication with the firm's outsiders can test whether the transaction is the right decision and whether the parent company has a good plan to execute that decision. We, therefore, hypothesize that the sentiment of spinoff conference call discussions can ex ante signal about this transaction's future. In Chapter 4 of this thesis, we examine the role of holding a conference call and its sentiment in the likelihood of spinoff incompletion.

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[6] See Bajo & Raimondo (2017); Doran, Peterson, & Price (2012); Kimbrough & Louis (2011); Oehler, Rummer, & Smith (2008); Siougle, Spyrou, & Tsekrekos (2014); Yang, Sun, Guo, & Fu (2019).

Chapter 3:   Corporate Spinoff Incompletion and Board Composition

3.1   Introduction

This study answers two related questions: (1) Compared to a completed spinoff, does spinoff incompletion matter with regard to parent firms' performance and shareholder wealth? (2) As the monitoring and approval body at the time of spinoff announcement, does board composition differ in parent firms with completed versus incomplete spinoffs?

We investigate and compare the long-term performance and wealth changes of completed spinoffs versus incomplete ones. We use earnings before interest, taxes, depreciation, and amortization (EBITDA)/Sales as an accounting measure to compare the performance of completed and incomplete spinoffs before and after spinoff announcements.[7] Moreover, we examine the BHAR of completed and incomplete spinoffs using in-sample and out-of-sample matching techniques for up to five years after the spinoff announcement. In the subsample of incomplete spinoffs, the BHAR is also compared between *Abandoned* spinoffs and those officially *Withdrawn*.[8] Our findings show a significant difference in accounting and market performance of firms that completed their announced spinoffs and those that left them incomplete (either officially withdrawn or quietly abandoned).

We also compare different board attributes in completed and incomplete spinoffs as well as the abandoned and withdrawn subsamples. Our findings show that board independence, CEO duality, board size, board gender diversity, board tenure, and board members' average age are significant factors influencing the probability of spinoff incompletion.

The remainder of the paper is organized as follows. Section 2 provides the literature review and hypothesis development. Section 3 explains the sample and methodology. Section 4 discusses the results. Section 5 finishes with a summary and concluding remarks.

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[7] As a robustness check, we examine EBITDA/Assets as another accounting measure. The results, not reported in this manuscript, show similar findings as those of EBITDA/Sales.

[8] *Withdrawn* spinoffs are those that are announced but after a while are canceled with an official announcement. On the other hand, *Abandoned* spinoffs are those that are announced but neither get completed nor have any official withdrawal announcement for at least 458 days after the announcement date.

3.2 Literature Review and Hypothesis Development

Long-Term Performance and Spinoff Incompletion

There are a number of noncash benefits that motivate firms to divest a unit into a separate operating company. A corporate spinoff improves firms' business focus (Wruck & Wruck, 2002), removes poor-performing divisions (Chemmanur & Yan, 2004; Patro, 2008; Wruck & Wruck, 2002), provides better access to capital (Wruck & Wruck, 2002), increases the flow of information (Wruck & Wruck, 2002), provides growth opportunity for the subsidiary as a separate entity (Patro, 2008), and smooths a merger transaction (Chemmanur & Yan, 2004; Wruck & Wruck, 2002).

Despite the wealth-enhancing effects of spinoffs, multiple underlying reasons make managers reluctant to remove some of their divisions and maintain larger firms even if the conglomerate structure is not value maximizing for shareholders. Corporate spinoff is a decision against managerial hunger for compensation, power, and status. In the presence of free cash flow and lack of investment opportunities, managers choose to grow the size of their empire above its optimal level. Larger and more diversified firms bring numerous personal benefits for managers. Amihud and Lev (1981) refer to a reduction in management's employment risk, Jensen (1986) refers to the prestige and power of managing an empire, Roll (1986) talks about managerial overconfidence, Shleifer and Vishny (1989) focus on the increase in the value of managers' human capital and entrenchment, Jensen and Murphy (1990) explain the compensation-related benefits, and Bertrand and Mullainathan (2003) mention management's inertia and preference to have a "quiet life" for avoiding to reduce the size of their conglomerate. Overall, such rent-seeking theories imply that in some firms that could benefit from divestiture, agency conflicts motivate top management not to follow through with such transactions. In addition to agency issues, market timing is mentioned in prior studies as a possible reason for spinoff incompletion (Harris & Madura, 2011). The evidence discussed above supports our first main hypothesis:

H1: *Compared to completed spinoffs, parents with incomplete spinoffs show lower long-term performance.*

Board Composition and Spinoff Incompletion

Board of directors composition has been the focus of corporate governance policies that aim to relate board structure to its advising and monitoring performances (Adams, Hermalin, & Weisbach, 2010; NACD, 2009). Monitoring and advising roles of boards of directors are both

important in supporting and controlling management decisions. Depending on different theories such as agency theory and contingency theory, each board attribute has a positive, negative, or neutral influence on the board's effectiveness and spinoff completion status.

Board Independence

Independent board members usually sit on multiple boards, which on the one hand, increases their advising abilities and, on the other hand, might limit their time to carefully monitor executives' decisions. Depending on each firm's overall board quality, the net effect of outside members on the board will be negative, positive, or neutral. For example, a study by Hermalin and Weisbach (1991) shows no relationship between board independence and firm performance. Other studies show boards with a majority of independent members are associated with less profitability and lower sensitivity when it comes to CEO accountability of a firm's performance (Core, Holthausen, & Larcker, 1999). In the specific case of executive compensation, prior research finds less monitoring effectiveness for boards that include larger portions of outside directors (Boyd, 1994; Lambert, Larcker, & Weigelt, 1993). Other studies find that insider directors are more beneficial for a firm as they are equipped with valuable insider knowledge of the firm (Erickson, Park, Reising, & Shin, 2005; Subrahmanyam, Rangan, & Rosenstein, 1997).

On the positive side, prior research finds that independent members bring more effective monitoring power to the board (Rosenstein & Wyatt, 1990; Walters, Kroll, & Wright, 2007). In a study by Rosenstein and Wyatt (1990), appointing more independent directors is associated with positive shareholder wealth change. A study by Owen, Shi, and Yawson (2010) shows that internal and external powers such as independent boards and blockholders can pressure managers to divest subsidiaries. In addition, other studies show the importance of board independence in increasing board monitoring effectiveness at the time of strategic decisions such as spinoffs, mergers, or IPOs (Ahn & Walker, 2007; Amar, Boujenoui, & Francoeur, 2011; Helbing et al., 2019). Based on the above findings, we hypothesize the following:

H2: Parent firms with a higher ratio of independent board members are less likely to have incomplete spinoffs.

CEO Duality

CEO duality, in the words of Finkelstein and D'Aveni (1994), is a "double-edged sword." On the one hand, based on the Organization Theory, upper management's consolidated power results in better performance and more decisive leadership (Moyer, Rao, & Baliga, 1996). When the CEO also holds the title of chairman of the board, it gives the CEO greater control over a firm's decisions. Empirical studies show that such a combination of titles is associated with both improved and diminished performance outcomes. In a study by Brickley, Coles, and Jarrell (1997), costs (benefits) of separating (combining) the two titles are examined. They show that firms with dual CEOs outperform the other type. They describe the benefits of CEO duality from different views, such as lower agency and information costs, smoother succession process, and better leadership effectiveness.

On the other hand, according to Agency Theory (Jensen & Meckling, 1976a), lack of separation between CEO and board chairman causes managerial entrenchment and less effective monitoring, leading to wrong decisions (Agrawal & Knoeber, 1996; Rechner & Dalton, 1991). Firms with no separation of CEO and chairman positions have lower effective governance (Beatty & Zajac, 1995; Jensen, 1993a). In addition, Goyal and Park (2002) find evidence that CEO duality lowers the sensitivity of CEO turnover to low firm performance and prevents independent leadership. As the opposite plan to spinoffs, M&A add to managerial entrenchment (Shleifer & Vishny, 1989). Moreover, based on the empire-building hypothesis and managerial desire to have larger empires (Jensen, 1986), we believe that spinoff is not a favorite plan for top management to be completed. We, therefore, hypothesize the following:

H3: Parent firms with the CEO as the chairman of the board are more likely to have incomplete spinoffs.

Board Size

Board size is a complex factor as increasing the number of board members adds to the board's effectiveness up to a point, after which the decisions will be slower and less effective (Jensen, 1993b). It is important to realize that there are costs and benefits of monitoring associated with larger boards, and firms get to a certain size of the board based on their operational needs (Boone, Casares Field, Karpoff, & Raheja, 2007). On the one hand, Coles, Daniel, and Naveen (2008) find a positive relationship between board size and firm performance, especially in highly diversified firms. Their results support the improved advising and monitoring performance of

larger boards. On the other hand, larger board size is less effective and associated with fewer strategic decisions (Khorana et al., 2007). Larger boards are less vigilant in monitoring CEO performance. Therefore, firms with larger boards experience fewer CEO turnover after a poor performance and are associated with lower value and firm performance (Yermack, 1996). In a study by Ahn and Walker (2007), larger boards are associated with fewer corporate spinoffs. We, therefore, hypothesize the following:

H4: *Parent firms with larger boards are more likely to have incomplete spinoffs.*

Board Gender Diversity

Prior studies view board gender diversity as another important, yet multifaceted, characteristic. One view shows that increasing the number of female members is a function of internal or external pressure, so it is not related to firm performance (Farrell & Hersch, 2005). Focusing on the financial impact of board gender diversity, Chapple and Humphrey's (2014) findings show no specific relationship between the portion of female members on the board and the firm's financial performance. Their results support the notion that when female members join the board, they are marginalized in what has historically been a "boys' club" and their monitoring efforts are diminished. Moreover, supporting the contingency theory, Carter, D'Souza, Simkins, and Simpson (2010) also show no specific relationship between board gender diversity and a firm's financial performance.

On the other hand, other studies suggest that higher board diversity increases the overall skillset of the board and changes its dynamics. Gender diversity on the board improves cognitive cohesion and group thinking, resulting in better decisions (Forbes & Milliken, 2008; Sonnenfeld, 2002). In addition, the typical characteristics of female board members, such as being more conservative and better monitoring members, lower the firm's internal control weaknesses (Chen, Eshleman, & Soileau, 2016). In the context of firm misbehaviors, the monitoring role of female board members lowers the probability of agency issues reflected in financial misconduct, regardless of the firm's overall governance quality (Wahid, 2019). Moreover, based on social psychology literature, more diverse boards are associated with better monitoring (Morck, 2004), which suggests that diverse boards evaluate their spinoff decision more effectively, resulting in fewer cases of incompletion. Since more females on the board is associated with more spinoff decisions (Ahn & Walker, 2007), we hypothesize the following:

H5: Parent firms with more gender-diversified boards are less likely to have incomplete spinoffs.

Outside Director Tenure

In the context of examining board effectiveness, prior studies show different associations between board tenure and its monitoring and advising roles. On the one hand, as included in the Institutional Shareholder Services (ISS) governance ratings, directors' tenure above nine years might compromise their independence (ISS, 2013–2014). Supporting the above argument, empirical studies show that board tenure has a nonlinear relationship with firm value and the quality of board tenure (S. Huang & Hilary, 2018).

On the other hand, long-serving outside directors are considered very experienced and knowledgeable about firm operations. Outside director tenure improves the advising role of the board in a firm's investment and acquisition decisions (Kim, Mauldin, & Patro, 2014). In addition, longer board tenure in the context of firm stability has a positive relationship with long-term abnormal returns (Livnat, Smith, Suslava, & Tarlie, 2021). Since longer-tenured board members are more settled in the firm and aware of the firm's operations, they are better monitors and advisors to the management when it comes to spinoff decisions and execution. We, therefore, hypothesize the following:

H6: Parent firms with higher board tenure are less likely to have incomplete spinoffs.

Outside Director Age

Director age and board effectiveness also have mixed relationships in prior research. In one stream of studies, older board members have lower monitoring effectiveness and show signs that they are less capable of controlling agency issues (Core et al., 1999). Another view is that older directors, especially nonexecutive ones, bring more experience to the firm, are less afraid to lose their position, and therefore, are more effective in their advising and monitoring roles (Fairchild & Li, 2005). Following similar underlying reasons that we have for board tenure, we hypothesize the following:

H7: Parent firms with older board members are less likely to have incomplete spinoffs.

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3.3 Data and Methodology

We identify announced spinoffs from January 1, 1980 to December 30, 2016 in SDC Platinum's M&A database. There are a total of 1,886 spinoffs announced during this time, which we then cross-check with the information on Dow Jones's Factiva platform to make sure that these spinoffs are not part of an M&A transaction. Following the literature's standard practice, we remove 360 spinoffs where the parent firm belongs to financial (Standard Industrial Classification [SIC] codes 6000–6999) and utilities (SIC codes 4900–4949). The final sample analyzed in this study comprises 1,526 announced corporate spinoffs over the 37-year period.

To test our first hypothesis, we compare the completed and incomplete spinoffs' long-term accounting and stock market performances. We use a *t*-test to compare before and after accounting performance of each group of announced spinoffs (i.e., completed and incomplete). Next, to compare the difference in completed and incomplete spinoffs' performance, we employ a two-sample mean *t*-test. The comparisons are conducted from three years before and up to five years after the spinoff announcement year. For analysis of the long-term stock market performance of each group of spinoffs (i.e., completed, incomplete, withdrawn, and abandoned), we use the BHAR following the methodology used by Cusatis, Miles, and Woolridge (1993). The BHAR is calculated from twelve to sixty months after the announcement date using two matching processes. First, we use the universe of COMPUSTAT firms to form a portfolio of five matching firms for every sample firm based on year, industry, size, and market-to-book ratio. We start with a four-digit SIC code for the industry matching, and if we cannot find all five matching firms, we complete the portfolio with three-digit and then two-digit SIC codes matching firms. Firm size and market-to-book ratio matching are within the thirty percent variation (i.e., between 0.7 and 1.3 range).[9] Second, as a robustness check and to remove selection bias due to differences between our nonrandom spinoff firms and their random peers, we match incomplete spinoff firms with their size- and industry-matched firms that completed their spinoffs. Despite having fewer observations, such an in-sample matching process provides a fair comparison between firms that are similar in their underlying conditions at the time of spinoff announcement. Finally, in order to better understand the impact of spinoff completion on shareholders' wealth, we repeat the BHAR

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[9] To calculate *size*, total assets are adjusted for inflation according to the base year of 1999.

analyses using the value-weighted combination of parent firms (remaining parent) and their respective spun-off units in the completed subsample.

To test our series of hypotheses on board composition, we use Probit regression to examine the likelihood of spinoff completion compared to incompletion while controlling for important board characteristics. Deal, ownership, and firm characteristics are also included as control variables. We also control for the recession years to capture the impact of the macroeconomic downturn on the probability of spinoff completion.

$$INCOMPLETE_{i,t} = b_0 + b_1 \, Board\_Independence_{i,t} + b_2 \, Ln\_Board\_Size_{i,t} +$$
$$b_3 \, Board\_Diversity_{i,t} + b_4 \, CEO\_Duality_{i,t} + b_5 \, Ln\_Board\_Age_{i,t} +$$
$$b_6 \, Ln\_Board\_Tenure_{i,t} + b_7 \, Inst\_Block\_Own_{i,t} + b_8 \, CAR_{i,t} + b_9 \, Focus_{i,t} +$$
$$b_{10} \, High\_Tech_{i,t} + b_{11} \, Tax\_Free_{i,t} + b_{12} \, Size_{i,t} + b_{13} \, ROA_{i,t} + b_{14} \, Leverage_{i,t} +$$
$$b_{15} \, Volatility_{i,t} + b_{16} \, MB\_Ratio_{i,t} + b_{17} \, Recession_{i,t} + \varepsilon_{i,t},$$

Where *INCOMPLETE* is a dummy equal to one for firms that do not complete their announced spinoffs and zero for the completed ones. *Board_Independence* is the ratio of independent members on the board. *Ln_Board_Size* is the natural logarithm of the number of board members at the beginning of the announcement year for each parent firm. Another explanatory variable is *Board_Diversity*, which represents the percentage of female board members on the board. To find the role of CEO duality in the context of spinoff completion, we include *CEO_Duality*, which is a dummy equal to one if the CEO is also the chairman of the board, and zero otherwise. Following the literature, we include the average age (*Ln_Age*) and the average number of tenure years (*Ln_Board_Tenure*) of nonexecutive board members as influential factors in predicting corporate spinoff (Ahn & Walker, 2007; Khorana et al., 2007). Both measures are in natural logarithm format.

According to Bethel and Liebeskind (1993), in addition to the impact of the environmental changes, there is an agency theory explanation for corporate restructuring decisions. Based on agency theory, managers have the tendency to expand and diversify even when it is not in the best interest of the shareholders. Inadequate monitoring would exacerbate such inferior decisions. In

the same vein, restructuring happens when there is an external force such as acquisition threat, shareholder activism, or even more monitoring by the institutional owners of the firm (Jensen & Meckling, 1976b; Shleifer & Vishny, 1986). We use the percentage of shares owned by institutional block holders (*Inst_Block_Own*) to reflect the effects of ownership structure on the probability of spinoff completion.

Following the logic of Harris and Madura (2011) and to control for market reaction, we also include a three-day cumulative abnormal return around the spinoff announcement, *CAR (−1,+1)*.[10] According to the market timing hypothesis, when markets react positively to the announcement, there is a higher probability that spinoffs are completed versus withdrawn.

Increasing industry focus is mentioned as one of the main reasons for managers' spinoff decision (Cusatis et al., 1993; Fraunhoffer et al., 2018; Veld & Veld-Merkoulova, 2004; Wruck & Wruck, 2002). Prior studies in the spinoff literature examine parent firms that increase their business focus by separating the unrelated unit and finding it a value-enhancing move for the parent firm (Desai & Jain, 1999; Huson & MacKinnon, 2003; Veld & Veld-Merkoulova, 2004). When a parent firm separates the unit with unrelated business lines and lowers the diversity of assets, managing the remaining and more focused operations becomes more efficient. Since focus-increasing spinoffs are desirable transactions, we predict a higher probability of completion for them. Therefore, we include a dummy variable (*Focus*) equal to one when the announced spinoff is focus increasing, and zero otherwise.

Another element that impacts the ex-ante prediction of spinoff completion is whether the parent firm is in a high-technology (high-tech) industry. We consider high-tech sectors to have a two-digit SIC code of 28, 35, 36, 73, or 87, and we use a dummy variable to represent these industries in our models (*High_Tech*). It is prevalent in high-tech companies that a discovery of economic value occurs, but the new idea is tangential to the parent firm's main line of business. This situation motivates managers to follow on the new idea via spinning off the related unit into a separate functioning company (Thompson & Klepper, 2005).

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[10] The estimation period for CAR (−1, +1) is from 200 to 21 days before the announcement with a minimum of 90 days required for the estimation to be considered. CRSP value-weighted market index daily returns are used for the market model estimation.

Moreover, we control for tax-free spinoffs because of the importance of their specific attributes (*Tax_Free*) (Feldman, Amit, & Villalonga, 2014; McConnell & Ovtchinnikov, 2004; Wruck & Wruck, 2002). *Tax_Free* is equal to one if the spinoff is ruled to be tax-free according to Section 355 of the IRC, and zero otherwise. There are a number of requirements for a spinoff to be considered tax-free, including (1) the parent must own at least 80% of the subsidiary's voting rights prior to the spinoff, (2) the parent must distribute at least 80% of its voting shares to shareholders and have no practical controlling power over the subsidiary after the spinoff, (3) the spinoff must be based on a valid business purpose, and (4) the parent and the spun-off unit have active business engagements for at least five years prior to the spinoff announcement. If these conditions are not met, the spinoff will be considered a taxable transaction in which the parent firm and shareholders will be taxed at the corporate tax rate and individual dividend tax rate, respectively.

We also include measures for parent firm size (*Size*), profitability (*ROA*), growth opportunity (*MB_Ratio*), and capital structure (*Leverage*) as common control variables (Ahn & Walker, 2007; Cusatis et al., 1993; López Iturriaga & Martín Cruz, 2008; Wruck & Wruck, 2002). Following Wruck and Wruck (2002), we calculate the industry-adjusted value of these measures averaged over the two years before the spinoff announcement, enhancing the comparability and reducing the impact of short-term shocks. Also, we control for the parent firm's risk (Huson & MacKinnon, 2003) with *Volatility*, which is the standard deviation of daily returns for the ninety trading-day period ending ten days before the spinoff announcement date.

Finally, we have a *Recession* dummy that equals one if the spinoff announcement is during any economic contraction period, and zero otherwise.[11] As the study by Geroski and Gregg (1994) shows, during recessions, multidivisional firms are more likely to separate some of their divisions to increase their business's focus, which implies a positive relationship between the recession period and spinoff completion. From another view, spinoffs during recession times may not be a firm's first option as Alexandrou and Sudarsanam (2001) explain the attractiveness of other cash-

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[11] The specific dates for economic contraction periods are gathered from the National Bureau of Economic Research's website (https://www.nber.org/cycles/cyclesmain.html).

generating transactions such as asset sell-offs or carve-outs. Industry and year fixed effects are included in all models.[12] Please refer to Table 3.1 for all variable definitions.

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To have a more in-depth look at our subsample of incomplete spinoffs, we use the Probit model to capture the impact of board composition on the likelihood of spinoff abandonment compared to withdrawal.

$$Abandoned_{i,t} = b_0 + b_1\ Board\_Independence_{i,t} + b_2\ Ln\_Board\_Size_{i,t} +$$
$$b_3\ Board\_Diversity_{i,t} + b_4\ CEO\_Duality_{i,t} + b_5\ Ln\_Board\_Age_{i,t} +$$
$$b_6\ Ln\_Board\_Tenure_{i,t} + b_7\ Inst\_Block\_Own_{i,t} + b_8\ CAR_{i,t} + b_9\ Focus_{i,t} +$$
$$b_{10}\ High\_Tech_{i,t} + b_{11}\ Tax\_Free_{i,t} + b_{12}\ Size_{i,t} + b_{13}\ ROA_{i,t} + b_{14}\ Leverage_{i,t} +$$
$$b_{15}\ Volatility_{i,t} + b_{16}\ MB\_Ratio_{i,t} + b_{17}\ Recession_{i,t} + \varepsilon_{i,t},$$

Where *Abandoned* is a dummy equal to one if the spinoff is neither officially withdrawn nor completed at least 458 days after the announcement date, and zero otherwise.[13] As a verification test, we select a random sample of abandoned spinoffs (equal to 10% of this category) and verify that none are withdrawn or completed any time after the announcement. All board composition and control variables are similar to the previous regression model.

Finally, as a robustness test, we repeat the above analyses using the spinoff announcements from 2009 to 2016. The reason for limiting the time period and choosing this part of our time frame is to provide results with the least possible impact of external shocks. During the last eight years of our sample, corporate governance regulations, business environment, and economic condition affecting spinoff completion likelihood are relatively stable.

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[12] We do not include industry fixed effect in models with *High_Tech* as one of the control variables.

[13] The number of days between the spinoff announcement date and completion date for the full sample during 1980–2016 is 458 days at the 90th percentile. Moreover, as Alli, Ramírez, and Yung (2001) show in their sample, the average duration between spinoff announcement and its withdrawal is five months, which shows that if parents have any plan to officially withdraw from the proposed spinoff, they would do it in less than six months from the announcement date.

3.4 Results

Table 3.2 shows the distribution of corporate spinoffs announced during the 1980-2016 period. Panel A provides the annual distribution, and Panel B shows the number of spinoff announcements each decade. On average, there are 40 spinoffs announced each year over this 37-year span. The year and decade with the maximum number of spinoff announcements are 2000 and the 1990s, respectively. The breakdown of spinoff completion status in Panels A and B shows a lower (higher) portion of abandoned (withdrawn) spinoffs during the 1990s. Interestingly, we witness an opposite trend in the 2000s where higher ratios of incomplete spinoffs are quietly abandoned[14].

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Table 3.3 depicts the breakdown of announced spinoffs based on their completion status, whether it is focus-increasing, whether the parent firm is a technology company, and the parent firm's industry. Overall, out of 1,526 announced spinoffs in our sample, 61.5% get completed, 16.8% are officially withdrawn, and 21.8% are just abandoned without any official press release. As one of the significant reasons behind the spinoff proposal, parent firms express the goal of increasing their business focus. As expected, Panel A shows that in our sample, 55.4% of announced spinoffs are made by parent firms that are in a different line of business than that of their prospective spun-off unit. Interestingly, unlike abandoned spinoffs, the ratio of focus-increasing spinoffs is higher in completed and withdrawn spinoffs. Another reason for the spinoff decision mentioned by managers of parent firms is to either increase their focus on new parents' growth or let the subsidiary unit grow independently. Since high growth opportunities are very prevalent in the high-tech field, in Panel B, we break down parent firms based on their high-tech business and show that only 39.2% of them are in high-technology. Regarding the distribution of high-tech firms in the three spinoff groups, we have the lowest number of observations in the

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[14] In our sample, a quarter of spinoffs are completed on the same day that they are publicly announced. About one third of spinoffs (33%) are completed within one month, more than half of them (56%) are completed within six months, and 87 percent of them are completed less than a year after the announcement. The longest time period between the announcement and the completion date is about 33 months.

Based on a random sample of 20 spinoff withdrawals during 2007-2016, time to withdrawal ranges from 21 to 884 days with the average of 290 days. About 20 percent of this sub-sample withdraw from the announced spinoff within one month, about half of them withdraw within six months, and 80 percent officially withdraw in less than 1.5 years after the announcement.

withdrawn group, followed by completed spinoffs and then the abandoned group. The higher level of high-tech abandoned spinoffs compared to the other two groups can imply the impact of the fast-changing environment of high-tech industries on the spinoff completion likelihood. Finally, Panel C shows the number of announced spinoffs in all industries, with about 64% in manufacturing as the most representative business field across all three groups of spinoffs.

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Table 3.4 provides summary statistics of the parent firm's fundamental characteristics as well as board composition, ownership structure, and market reaction to the spinoff announcement. Among the firm characteristics, *Size*, *MB_Ratio*, *ROA*, and *Leverage* are industry adjusted, and therefore, we see minimum negative statistics. For the most part, we have a wide-ranging database but do not see a very skewed distribution of observations with regard to our firm characteristics.

Regarding the size of parent firms in the three groups of completion, we notice that abandoned spinoffs are announced by the smallest parent firms on average. This observation shows that smaller parent firms, on average, do not feel the pressure or the need to complete their announced spinoff or withdraw from it in an official manner. *Relative_Size*, which reflects the importance of the spinoff transaction, shows an average of about 25% ranging from very small size to almost all of the parent firm's size. Due to lack of information availability, this variable is calculated for only the completed subsample.

Another interesting observation among the three groups is related to market reaction to the spinoff announcement, measured by CAR (–1, +1). Market reaction to the withdrawn group is the lowest of all, which is in line with the market-timing hypothesis mentioned by Harris and Madura (2011).

In terms of board composition, the focus of this study, we have parent firms with diverse board characteristics. For example, some parent firms have zero independent board members, whereas others have 100% independence in their boards. In terms of board gender diversity, our sample of parent firms include boards with no female director and boards with majority (67%) female directors. A similar variety is depicted for board size, average age, and tenure of directors, which shows the relevancy of board composition analysis.

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Table 3.5 illustrates the results of pairwise correlation coefficients between the explanatory variables. Among the firm characteristics, *Volatility* has a significant negative correlation with all board attributes. In contrast, firm size has a significant positive correlation with board size, independence, diversity, and tenure. There is no indication of the extreme correlation between any of the explanatory variables.

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To show the value relevancy of spinoff completion, we compare the change in parent firms' performance that complete their spinoff versus those that leave it incomplete. Following Alli, Ramírez, and Yung (2001), we use industry-adjusted EBITDA divided by total sales to examine our sample firms' operating performance. Table 3.6 provides the results of our significance analyses, where Model 1 shows the change in performance for parent firms that completed their spinoffs over different time frames ranging from three years before and up to five years after the spinoff announcement. Model 2 shows the result of a similar performance change for the subsample of incomplete spinoffs. Model 3 reflects the two-sample mean test between the performance changes of completed and incomplete parent firms. Models 4–6 repeat a similar pattern of tests of Models 1–3 with the sample that excludes spinoff announcements in financial crisis years.

Comparing one year after and one year before the spinoff announcement, both completed and incomplete spinoffs show a significant decline in performance (–0.033 and –0.063 coefficients, respectively). Still, the downfall is more severe in parents with incomplete spinoffs. Similar findings are found when we exclude the financial crisis years. Another evidence that shows spinoff incompletion has damaging consequences compared to its completion is related to two years before and one year after the announcement. We provide evidence of the significant difference between the change in incomplete spinoff performance and completed ones during this time frame. Similar findings are presented in analyses of three years before and one year after the announcement. These findings and multiple other significant coefficients in Table 3.6 provide evidence on the importance of spinoff completion and the negative aftermath of its incompletion on the parent firm's operating performance.

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To examine long-term market reaction to completed and incomplete spinoffs, we use BHAR analysis up to five years after the announcement date. Following the literature, to calculate the BHAR, we use a portfolio-matched firm approach based on year, size, industry, and book-to-market ratio to avoid rebalancing bias, new listing bias, and skewness bias (Barber & Lyon, 1997; Cusatis et al., 1993; Roll, 1983). From the universe of COMPUSTAT and in the year of announcement, we create a portfolio of five firms within a 0.7–1.3 range of the parent firm's size and book-to-market ratio and have similar four-digit SIC code in each year. If no firm is found, we reduce the SIC code to three digits and then two digits until we find the matched firms. Then, using daily returns, we calculate the mean BHAR of the matched portfolios and compare them to the BHAR of each sample firm over the long term.

Table 3.7 shows the portfolio-matched firm-adjusted BHAR for remaining parent firms of the completed spinoffs, the spun-off units, as well as withdrawn and abandoned spinoff parents. Looking at the completed group, we notice that spun-off units are performing significantly more negatively than their remaining parents in the long run. Among the subsample of incomplete spinoffs, only those that withdraw from the deal have negative and significant BHAR from two to four years after the spinoff announcement. Overall, this table provides some preliminary views on the long-term market performance of each spinoff group.

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Table 3.8 provides the findings of differences in mean BHARs for the different subsamples over 12–60 months after the spinoff announcement. Panel A compares parent firms' long-term stock market performance with completed spinoffs and those that never completed the transaction in the first three rows. The completed spinoffs used in the first three analyses of this panel are the remaining parent firm. The findings show that remaining parent firms in completed spinoffs outperform those that abandon the deal, especially during the first three years after the announcement date, which supports H1. The last row of Panel A shows the difference in the BHARs of parent firms with abandoned versus withdrawn spinoffs. There is no significant difference between the portfolio-matched performance of the two subsamples of abandoned and withdrawn spinoffs. Panel B, in the first three rows, presents similar comparisons between the different subsamples of spinoff where the BHAR of the remaining parent is combined with the BHAR of the spun-off unit using a value-weighted average process. Per the previous panel, the

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fourth row shows the comparison of portfolio-matched-adjusted BHAR of the withdrawn subsample with that of the abandoned one. Based on our analyses in Panel B, there is no significant difference between the long-term market performance of the different groups of spinoffs. Since the only difference between Panel A and Panel B is the addition of the spun-off unit, we next analyze the difference in portfolio-matched-adjusted BHAR of the remaining parent and that of the spun-off unit.

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Table 3.9 examines the difference between the portfolio-matched-adjusted BHAR of the remaining parent and the combined BHAR of the remaining parent and the spun-off unit in the subsample of completed spinoffs. As expected, the remaining parent has significantly higher performance than the combined group in the following three years. This finding is aligned with prior studies that mention the separation of poor-performing units (sometimes called the junk) as a reason for spinoff decisions. In other words, when the parent firm actually completed the spinoff process of a low-performing unit, the remaining parent experiences significant improvement in its market performance in the long run.

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So far in our analyses, we compared the performance of our sample spinoff firms with their random matched firms that were not involved in a spinoff process. Therefore, our findings might suffer from self-selection bias as the spinoff decision is a choice made endogenously by the firm and reflects specific inside information or characteristic. As a robustness test and to limit such bias, we change our matching source from the universe of COMPUSTAT firms to our own sample of spinoff firms. Using size and industry, in Table 3.10, we match firms in the subsamples of completed, incomplete, withdrawn, and abandoned spinoffs to run the comparative analyses. The first three rows in Panel A show the result of mean returns of the incomplete spinoff firms against in-sample matched remaining parent firms for 12–60 months after the announcement date, and the fourth row compares the withdrawn and abandoned groups. Overall, the results show significant outperformance by the remaining parent in the completed group compared to the incomplete one. Percent positive shows that outliers do not drive such results, and the positive difference in mean return is found in the majority of paired firms. The main group that causes such underperformance is the withdrawn groups over the 24–60 months after the announcement date. Per Table 3.8, we do

not show significant difference in performance of the withdrawn and abandoned subsamples, which might be due to the low number of observations. In order to include the performance of the spun-off units in the analyses, we combined the remaining parent's buy-and-hold return with that of the spun-off unit on a weighted average basis and repeat all four groups of comparisons in Panel B. The findings show that the combined parent and spun-off unit in the completed subsample outperform the incomplete spinoff parents in 36 and 48 months after the announcement date. Considering the significantly low performance of the spun-off units, these findings provide support for H1, where we claim that spinoff completion has significant positive impacts on the parent firm's long-term performance. Overall, we provide robust evidence on the importance of analyzing spinoff incompletion and its value relevancy for shareholders.

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So far, our results support the value relevancy and importance of spinoff completion in the long-term operating performance of parent firms. The next series of tests aim to show if specific board attributes are present in firms that complete their spinoffs versus those that leave it incomplete. The results of our Probit regression analyses are presented in Tables 3.11 and 3.13 (3.12 and 3.14), where the dependent variable is a dummy equal to one for spinoffs that are incomplete (abandoned) and zero for the completed (withdrawn) cases. The main focus of interest in this part of the analysis is on board composition and its role in predicting the probability of spinoff incompletion or abandonment, respectively. The difference between Tables 3.11 and 3.13 is the time frame, which is 1980–2016 for Table 3.11 and 2009–2016 in Table 3.13. The findings in Table 3.11 show a negative and significant relationship between the probability of spinoff incompletion and *Board_Age*, *Board_Tenure*, and *Board_Independence*, which supports H2, H6, and H7. The findings on the average age of nonexecutive board members add an interesting point to the discussion of Ahn and Walker's (2007) findings, where they show an inverse relationship between the average age of board members and the decision to go for a spinoff. In other words, both results together imply that a higher average age of board members is associated with fewer spinoff decisions but a higher completion rate of announced spinoffs. Moreover, we find that CEO duality is significantly and positively associated with the probability of spinoff incompletion, supporting H3. This evidence adds to the study's conclusions by Feng, Nandy, and Tian (2015), which show a significant negative relationship between CEO duality and spinoff decision. Another

related study in the context of canceled M&A is by Davidson III, Rosenstein, and Sundaram (2002). They show a significant positive relationship between CEO duality and the likelihood that the bidder cancels the merger.

As part of the control variables, when spinoff is focus increasing, there is less probability of incompletion, which is supported by the literature (Allen et al., 1995; Feng et al., 2015; Nanda & Narayanan, 1999; Schipper & Smith, 1983; Wruck & Wruck, 2002). Higher return volatility is positively and significantly associated with spinoff incompletion whereas being a tax-free spinoff reduces the possibility of incompletion. We also show some results on the negative relationship between ratio of institutional block ownership and spinoff incompletion. This finding implies the monitoring role of these shareholders and their control over the firm's decisions.

………………Please place Table 3.11 here ……………….

To have a closer look at the subsample of incomplete spinoffs, we use Probit regression analysis. The dependent variable is equal to one for abandoned spinoffs and zero for those officially withdrawn. The results of the Probit analysis in Table 3.12 show a significant negative association between the likelihood of abandonment and *Board_Independence*, *Board_Size*, *Board_Diversity*, and the average age of nonexecutive directors (*Board_Age*). These findings suggest that when a firm has more independent board members, a larger board, more female board members, and the outside members are older, there is a lower probability of abandonment. These kinds of firms are more committed to officially communicating the canceled plan of spinoff with the market.

In terms of other firms, market, and deal characteristics, interestingly a better market reaction to the spinoff announcement increases (decreases) the probability of abandonment (withdrawal). Since this paper is the first to acknowledge the abandoned group of spinoffs and in-depth analysis of this subsample is not the purpose of this study, further research is needed to understand the reason for such outcome. However, from the withdrawal viewpoint, this finding complements the results found in the study by Harris and Madura (2011), where negative market reaction (i.e., bad market timing) is the reason behind spinoff withdrawals. The findings also show that larger firms are less likely to abandon the transaction. These findings are consistent with the work of Smith (1996) that suggests larger firms are more likely to be targeted by shareholder activism and, as a result, may be under higher pressure to officially communicate with the market

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about any change of plans. Another expected result is the positive role of economic recession in firms abandoning spinoff.

………………Please place Table 3.12 here ……………….

As mentioned before, the analyses in Tables 3.13 and 13.4 are similar to those in Tables 3.11 and 3.12 but for a shorter period of time (2009–2016). We limit our sample to this chunk of time to be more recent, without any financial crisis, and therefore relatively more stable in terms of corporate divestiture environment. Results of Table 3.13 show a positive relationship between spinoff incompletion likelihood and *CEO_Duality* and *Board_Size*, which supports H3 and H4. Similar to Table 3.11, *Board_Independence* and *Board_Age* show negative association with the probability of spinoff incompletion, supporting H2 and H7. Interestingly, market reaction to spinoff announcement has a significant negative relationship with spinoff incompletion, which along with the finding for *CAR* in Table 3.12 implies that this negative relationship is related to spinoff withdrawals (and not the abandoned group). Table 3.14 confirms the findings of board attributes and spinoff abandonment in Table 3.12. The results show negative relationships between probability of abandonment and *Board_Independence*, *Board_Age*, *Board_Diversity*, and *Board_Tenure*, implying that higher board effectiveness is associated with more communication commitment of the managers when they retract from strategic decisions.

………………Please place Tables 3.13 and 3.14 here ……………….

3.5 Conclusion

Corporate spinoffs are one of the very beneficial restructuring decisions for shareholders, yet about 40% of all announced spinoffs in the United States never get completed. This study focuses on the likelihood of spinoff incompletion and the predicting power of board composition at the time of announcement. Our goal is to shed light on the value relevancy and performance-changing impacts of spinoff incompletion compared to completed cases. Moreover, we aim to examine the differences in board composition in these two groups of parent firms. As the primary monitoring and advisory body representing shareholders, the board of directors has a duty to analyze the spinoff plan and eventually approve it before it is announced to outsiders. The structure and specific board attributes can be used as a proxy for predicting the likelihood of spinoff

completion or incompletion. We use a sample of 1,526 announced spinoffs from 1980 to 2016 and find that firms with incomplete spinoffs have lower performance over the long term than those that completed the transaction. We use EBITDA/Sales and the BHAR as our proxy for accounting and stock market performance, respectively.

Our results on the role of board attributes and the probability of spinoff incompletion show that CEO duality increases the chance of incompletion, whereas older nonexecutive directors, more independent members, and nonexecutive members with longer tenure are associated with a lower probability of spinoff incompletion. We also find that if the spinoff increases the parent firm's business focus and is welcomed by the market, there is less probability of incompletion. We next divide the incomplete spinoffs into two groups: spinoffs officially withdrawn and spinoffs quietly abandoned. In the subsample of incomplete spinoffs, we find evidence on the negative relationship between spinoff abandonment and average board tenure, board independence, board size, board diversity, and board age. Our results are robust to different model specifications and time frames.

This study contributes to the understudied topic of spinoff incompletion in multiple ways. First, it provides evidence on the value-destroying effects of spinoff incompletion, which shows the importance of this topic for shareholders and practitioners. Second, it shows the predicting power of board composition in the final status of announced spinoffs. Third, it differentiates between firms that just abandoned their announced spinoff plan and those that tried to be transparent with their shareholders and officially announced a withdrawal decision. There are still many questions that need to be answered in the context of corporate spinoff incompletion, and we hope to be able to motivate some new areas for future research.

Chapter 4: Conference Calls and the Probability of Spinoff Incompletion - A Textual Sentiment Analysis

4.1 Introduction

This paper examines the relationship between conference calls' existence and sentiment and the probability of corporate spinoff completion. According to most empirical studies, spinoffs are one of the significant unscheduled value-enhancing strategic corporate events. There are multiple reasons mentioned for this positive impact on the parent firm, including increased focus of the operation, release of asset values, elimination of negative synergy among divisions, reversion of a bad acquisition done in the past, reduction of diversification discount, etc.[15] Despite its apparent benefits, the population of corporate spinoffs shows that from 1980 to 2016, about 40% of the announced corporate spinoffs in the United States are left incomplete.[16] Since the announcement of a spinoff decision is perceived as positive news, leaving the transaction incomplete can adversely impact shareholders' wealth. Such a significant portion of incomplete spinoffs triggers several questions such as "Did managers announce the spinoff just to temporarily enjoy the consequences of this positive news with no intention of ever completing it?"; "Was the spinoff left incomplete because managers did not have a strong, well-thought-out plan for it?"; and "How does information dissemination around the announcement signal about the probability of spinoff completion?" To our knowledge, there are only two studies that examine spinoff incompletion. Alli, Ramírez, and Yung (2001) focus on market reaction to spinoff withdrawals during 1984–1994 and discuss the role of providing a reason for withdrawal in changing market reaction to these events. Harris and Madura (2011) focus on spinoff withdrawals during 1984–2007 and provide conditions that increase spinoff withdrawal probability. They conclude that market timing and the circumstances of both the parent firm's and the subsidiary unit's industries

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[15] (See Ahn & Denis, 2004; Allen, 2001; Allen et al., 1995; Aron, 1991; Berger & Ofek, 1995; Burch & Nanda, 2003; Cusatis, Miles, & Woolridge, 1993; Daley, Mehrotra, & Sivakumar, 1997; Desai & Jain, 1999; Feng, Nandy, & Tian, 2015; Habib & Johnsen, 1997; Krishnaswami & Subramaniam, 1999; Lee & Madhavan, 2010; Nanda & Narayanan, 1999; Patro, 2008; Schipper & Smith, 1983; Wruck, & Eric G., Wruck, 2002).

[16] During 1980–2016, a total of 1,900 US corporate spinoffs were announced of which 1,167 eventually got completed, 290 were officially withdrawn, and 443 were neither withdrawn nor completed (source: SDC Platinum).

play a significant role in spinoff withdrawal. None of these studies focus on the role of the information environment in spinoff incompletion.

In this research, we connect the literature on corporate restructuring and corporate communication in an interdisciplinary approach. In the corporate restructuring literature, we focus on spinoffs, and in the communication context, we focus on conference calls that companies arrange with investors and analysts. We collect the call transcripts of a sample of 700 US corporate spinoffs announced from 2002 to 2016 and employ content analysis techniques to measure the tone of all the conversations in each Call[17]. We find that firms that hold a conference call along with their announcement of the spinoff decision are less likely to leave the spinoff incomplete. Moreover, when there is a higher portion of positive words in the Call compared to the negative words, there is a higher chance that the spinoff stays incomplete. We also show that when the spinoff is focus increasing or tax-free, there is a higher chance of completion. Overall, these results support the predicting power of conference calls at the time of the spinoff announcement. Investors, however, need to pay attention to the overly positive tone of the Call.

The rest of the paper is organized as follows. Section 2 provides the literature review and hypothesis development. Section 3 explains the sample and methodology. Section 4 discusses the results. Section 5 finishes with a summary and concluding remarks.

4.2 Literature Review and Hypothesis Development

This study proposes that corporate communication attributes at the time of announcement ex ante signals the probability of completion. Spinoff announcements are mainly through press releases, but they provide minimal information range, especially regarding such significant decisions. In addition to the press release, some companies decide to discuss their spinoff decision in a conference call. As one of the significant corporate communication methods, a conference call is a voluntary disclosure source that provides a platform for interactive discussion among managers, analysts, and investors. After the passage of Regulation Fair Disclosure (Reg FD) in

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[17] We use the Linguistic Inquiry and Word Count (LIWC) software by Pennebaker, Francis, and Booth (2001) for word recognition and count the total number of words in transcripts as well as our sentiment-related word lists.

2000 and with the help of technology, conference calls became one of the special disclosure events for firms, mainly at the time of earnings announcements. In addition to the management presentation, the information released in the question and answer (Q&A) part of the conference call creates a unique communication channel. Firms release useful information during a conference call, which improves the market's understanding of the important events (Sunder, 2005). Therefore, a call is a way to reduce information asymmetry, analyst forecast errors, and underreaction to the news (Bowen, Davis, & Matsumoto, 2002a; Kimbrough, 2005).

In a study in the context of M&A, Kimbrough and Louis (2011) show that mergers announcements accompanied by a conference call receive better market reaction. Moreover, they show that the likelihood of a bidding firm holding a call is positively related to the size of the deal (which reflects its importance). We know that conference calls are costly and time-consuming, and only a subset of firms decide to hold them in addition to press releases. Management's voluntary choice to be exposed to random questions in the call reflects their confidence in their decisions and the importance of the strategic news. Therefore, a corporate spinoff announcement along with a conference call suggests lower possibility of deal incompletion.

H1: Holding a conference call is negatively associated with the probability of spinoff incompletion.

Conference Call Tone and Spinoff Incompletion

The tone of the words in the narratives takes content analysis from *what* is disclosed to *how* it is disclosed, which is crucial in understanding the meaning of information. The importance of holding conference calls and their sentiment is due to their forward-looking characteristics as they mainly reflect foresight than hindsight. Conference calls add to the information of the press release, which can add to investors' understanding of firms' decisions (Frankel et al., 1999c).

The literature shows two different views on the true meaning of positive and negative tone of corporate disclosure. One view is that a positive tone in corporate communication reflects a promising future, which is based on the principles of signaling and prospect theories. The optimistic and positive tone of words used in firms' press releases is positively associated with market reaction and future firm performance (Henry, 2008; Viana, Castro, Ponte, & Lima, 2019). In addition, as Kearney and Liu (2014) explain, the overall tone of conference calls has more

potential predictability on future firm prospects than a retrospective-looking outlet such as news stories.

The other view, based on impression management theory, focuses on psychological factors of managers' self-serving bias when it comes to communication activities (Goffman, 1959). A number of empirical studies examine the implications of impression management in both financial and nonfinancial corporate disclosure practices (Wang, 2016). The use of high positive emphasis on strong performance and lower negative tone on weak performance is an implication of bias in firms' financial explanations (Aerts, 1994). Management's opportunistic incentives are among motivations behind firms' voluntary disclosures (Lang & Lundholm, 2000). Using the notion of game theory, Dye (2001) suggests that a firm's voluntary disclosure is only to release favorable information about the firm and firms do not voluntarily talk about unfavorable news. Healy and Palepu (2001) also discuss management's incentives for engaging in voluntary disclosure which implies self-serving bias of the positive tone in such communication channels. According to Merkl-Davies and Brennan (2007), positive tone and persuasive language in corporate disclosures imply a type of rhetorical manipulation through which firms release selective information and present a picture that differs from reality.

In the context of linguistic analysis of managerial tone in conference calls and accounting deception, Larcker and Zakolyukina (2012) show that when CEOs use more extreme positive emotions and very few negative ones, there is higher chance of deception and subsequent financial restatements. Moreover, Huang, Teoh, and Zhang (2014) show that firms utilize tone management to misguide investors and create a superior perception about a firm's fundamental quality before strategic events such as seasoned equity offering or M&A. In addition, there is evidence that positive words are used more frequently and contain less information compared to negative tone words (Garcia, Garas, & Schweitzer, 2012).

Following the above literature and since spinoff conference calls are special occasions, either prospect theory or impression management theory is possible. We therefore examine the relationship between positive and negative sentiment of conference calls with spinoff incompletion both ways. Following prior studies and in order to have a comparative measure of call sentiment among firms, we use the ratio of negative to positive words as our tone measure and hypothesize the following:

H2: *Ratio of negative to positive tone of conference calls has a significant positive association with probability of spinoff incompletion.*

H3: *Ratio of negative to positive tone of conference calls has a significant negative association with probability of spinoff incompletion.*

4.3 Data and Methodology

We identify the population of US firms with spinoff announcements from January 1, 2002 to December 30, 2016 from SDC Platinum's M&A database.[18] SDC Platinum provides information about corporate spinoffs such as announcement dates, effective dates, and parent companies' public status, among other transaction details. We use Dow Jones's Factiva platform to verify the dates related to each spinoff announcement. There are a total of 871 spinoff announcements during this 15-year period. We remove parent firms that belong to the financial (SIC code 6000–6999) and utilities (SIC code 4900–4949) industries. The sample parent firms with a spinoff announcement belong to three categories: *Completed*, *Withdrawn*, and *Abandoned*. We define *Completed* spinoffs as those with a specific effective date, *Withdrawn* spinoffs as those with an official announcement for cancellation, and *Abandoned* spinoffs as those neither completed nor withdrawn for at least 458 days after the announcement date. The reason for this cutoff number is that over our sample of announced spinoffs during 1980–2016, the number of days between the spinoff announcement date and completion date is 458 days at the 90th percentile. Please refer to Table 4.1 for all variable definitions.

………………Please place Table 4.1 here ……………….

We collect board of directors' data from Boardex, ownership structure from the Securities and Exchange Commission's 13F filings, stock market data from the CRSP database, and financial data from the Compustat database. After all the removals and data collections, our final sample comprises 700 parent firms. We identify firms in our sample that conducted conference calls on the day of or the day after the announcement date. Our primary source for the conference call

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[18] The reason behind this time frame is our lack of access to call transcripts before 2002. After the passage of Reg FD at the end of 2000, firms are mandated to release transcripts of their conference calls, which made it easier for databases to store such documents in an organized manner.

transcripts is the FactSet database. We also conduct a secondary confirmation process on the conference calls using Dow Jones's Factiva platform, Thomson One's Streetevents, and Bloomberg's Events databases. Please refer to Table 4.2 for sample selection process.

………………Please place Table 4.2 here ……………….

We use Probit regression analysis to examine the impact of conference calls and the tone of discussions on the likelihood of spinoff incompletion. The dependent variable, *INCOMPLETE*, takes one if the spinoff is incomplete (either *Withdrawn* or *Abandoned*) and zero if *Completed*. The Probit model to test H1 is as follows:

$INCOMPLETE_{i,t}$
$$= b_0 + b_1\ Call_{i,t} + b_1\ Board\_Independence_{i,t} + b_2\ Ln\_Board\_Size_{i,t}$$
$$+ b_3\ Board\_Diversity_{i,t} + b_4\ CEO\_Duality_{i,t} + b_5\ Ln\_Board\_Age_{i,t}$$
$$+ b_6\ Ln\_Board\_Tenure_{i,t} + b_7\ Inst\_Block\_Own_{i,t} + b_8\ CAR_{i,t} + b_9\ Focus_{i,t}$$
$$+ b_{10}\ High\_Tech_{i,t} + b_{11}\ Tax\_Free_{i,t} + b_{12}\ Size_{i,t} + b_{13}\ ROA_{i,t}$$
$$+ b_{14}\ Leverage_{i,t} + b_{15}\ Volatility_{i,t} + b_{16}\ MB\_Ratio_{i,t} + \varepsilon_{i,t},$$

Where *Call* is a binary variable equal to one if a conference call is held on the day of or the day after corporate spinoff announcement, and zero otherwise. Our models include several control variables. We have a dichotomous variable, *Focus_Increasing*, to reflect whether the spinoff increases the industrial focus of the parent firm. *Focus_Increasing* takes the value of one when the parent company and the unit have different two-digit SIC codes and zero if the codes are the same. Daley, Mehrotra, and Sivakumar (1997) show that compared to same-industry spinoffs, cross-industry spinoffs improve the parent firm's operating performance. Also, Ahn and Denis (2004) find that diversification discount gets eliminated when parent firms spin off their unrelated units. Since spinoff of unrelated units seems to benefit the parent firm, we expect that focus-increasing spinoffs are more likely to be completed. To capture the parents' contrasting industries in their transparency profiles, we include dummy variables for high-tech industries (*High_Tech*). The high-tech sector experiences higher proprietary information disclosure costs and has fewer motives for transparency (Botosan, 1997; Fraunhoffer et al., 2018).

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We also control for different board attributes and the role of institutional block holders as proxies for governance quality of the firm at the time of announcement. Prior literature shows the importance of governance in reducing impression management (García Osma & Guillamón-Saorín, 2011). In order to control for the information environment of the parent company, we follow prior studies and use firm size as a proxy for information asymmetry. Multiple studies show that larger firms have more information available and they are more visible in the eyes of market participants. Larger firms experience more information release by private parties, which implies less information asymmetry for these firms compared to small ones. Another implication of such lower information asymmetry is the negative relationship between price reaction to earnings announcement and firm size (Atiase, 1985; Bhushan, 1989; Freeman, 1987).

We further control for the parent firm's growth opportunities (*MB_Ratio*), profitability (*ROA*), capital structure (*Leverage*), and stock volatility (*Volatility*) (Fraunhoffer et al., 2018; Kimbrough & Louis, 2011; Wruck & Wruck, 2002). Moreover, we control for tax-free spinoffs because of the importance of their specific attributes (*Tax_Free*) (Feldman et al., 2014; McConnell & Ovtchinnikov, 2004; Wruck & Wruck, 2002). Following Wruck and Wruck (2002), we calculate the industry-adjusted value of these measures averaged over the two years before the spinoff announcement (except for *Volatility*), enhancing the comparability and reducing the impact of short-term shocks. *MB_Ratio* is the pre-spinoff industry-adjusted market-to-book ratio for parent firm, averaged over years –2 and –1 relative to announcement. *ROA* is the industry-adjusted profitability for the parent firm, averaged over the years –2 to –1 relative to announcement. *Leverage* is the industry-adjusted total debt divided by total assets in book value, averaged over years –2 to –1 relative to announcement. *Size* is the industry-adjusted natural log (assets) of the parent firm, averaged over years –2 to –1 relative to announcement. *Volatility* is in percent and is calculated as the standard deviation of daily returns for the 90-trading-day period ending 10 days prior to the conference call. *Tax_Free* is equal to one if the spinoff is to be tax-free according to Section 355 of the IRC, and zero otherwise. There are a number of requirements for a spinoff to be considered tax-free including (1) the parent must own at least 80% of the subsidiary's voting rights prior to the spinoff, (2) the parent must distribute at least 80% of its voting shares to shareholders and have no practical controlling power over the subsidiary after the spinoff, (3) the spinoff must be based on a valid business purpose, and (4) the parent or the subsidiary cannot be acquired for two years after the spinoff transaction. If these conditions are not met, the spinoff will

be considered a taxable transaction in which the parent firm and shareholders will be taxed at the corporate tax rate and individual dividend tax rate, respectively.

In order to test H2 and H3, we use Probit models to examine the likelihood of spinoff incompletion in relation to the tone measure:

$INCOMPLETE_{i,t}$

$$= b_0 + b_1\,Tone_{i,t} + b_1\,Board\_Independence_{i,t} + b_2\,Ln\_Board\_Size_{i,t}$$
$$+ b_3\,Board\_Diversity_{i,t} + b_4\,CEO\_Duality_{i,t} + b_5\,Ln\_Board\_Age_{i,t}$$
$$+ b_6\,Ln\_Board\_Tenure_{i,t} + b_7\,Inst\_Block\_Own_{i,t} + b_8\,CAR_{i,t} + b_9\,Focus_{i,t}$$
$$+ b_{10}\,High\_Tech_{i,t} + b_{11}\,Tax\_Free_{i,t} + b_{12}\,Size_{i,t} + b_{13}\,ROA_{i,t}$$
$$+ b_{14}\,Leverage_{i,t} + b_{15}\,Volatility_{i,t} + b_{16}\,MB\_Ratio_{i,t} + \varepsilon_{i,t},$$

where *Tone* is the measure of a specific sentiment of the conference call using content analysis technique, which is a systematic analysis of characteristics of a text or message (Rogers, Van Buskirk, & Zechman, 2011). We use the list of sentiment words (positive, negative, uncertain, litigious, strong, and weak modals) designed by Loughran and McDonald (2011; hereafter LM).[19] We measure positive tone (*POSITIVE*) as the total count of LM's positive and strong words divided by the total number of words in the transcript of the conference call, presented as a percentage. We measure negative tone (*NEGATIVE*) as the total count of LM's negative, uncertain, litigious, and weak words divided by the total number of words in the transcript of the conference call, presented as a percentage. Our main tone measure, *Neg-to-Pos*, is equal to *NEGATIVE* divided by *POSITIVE*, presented as a percentage.

The LM dictionaries are derived from 10-K filings of more than 44,000 firms and are purely business and finance related. As LM explain, some of the negative words in nonfinance contexts such as debt, tax, foreign, and cost are not necessarily negative in the finance world. Therefore,

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[19] There are other word lists used in the literature of sentiment and tone analysis including (1) the dictionary created by Henry (2008) based on transcripts of earnings announcements, (2) the dictionary from Diction software created by Roderick Hart who is a political and mass media specialist, and (3) the dictionary from General Inquirer program developed by Philip Stone who is a social psychology expert. The second and third word lists are not business or finance related and can result in polysemy (when one word can have multiple meanings), which is one of the main issues in computational linguistics. The first dictionary by Henry (2008) includes finance-relevant words but is not selected as the main word list due to its limited scope compared to the word list created by Loughran and McDonald (2011).

content analysis studies in the business field are best using relevant dictionaries to avoid misinterpretation of the findings. We incorporate all six categories of words by LM in our research as each of them provides a different dimension that helps us in this investigation: positive, negative, strong, weak, uncertain, and litigious. Studies show heterogeneous associations between positive, negative, and litigious tones with future instances of fraud, market reaction, and trading volume (Epstein & Schneider, 2008; Henry & Leone, 2016b; Loughran & McDonald, 2011; Pagliarussi, Aguiar, & Galdi, 2016). Moreover, all the words in our analyses are equally weighted as Henry and Leone (2016) show that equally weighted, field-specific, word-frequency tone measurements are mostly as powerful as the more complex techniques in the context of financial disclosure.

To control economic cycles' impact on the decision to complete a spinoff, we run all the analyses with and without the recession years. We collect information on different economic cycles from the Business Cycle database of the National Bureau of Economic Research (NBER). According to a study by Geroski and Gregg (1994), corporate restructuring responses to economic recession differ depending on the firm's organizational structure. During a recession, decisions to focus on core business and dispose of some assets are more likely to happen in holding conglomerates or firms with multiple divisions than business-focused companies. On one hand, spinoff decisions during a recession period may be associated with higher completion probability, while these decisions may be replaced with other cash-generating options such as asset sell-offs or carve-outs. As Alexandrou and Sudarsanam (2001) show, corporate sell-offs generate more considerable gains for the parent company during recession times than economic boom periods. Therefore, we do not have a specific expectation on the direction of the recession impact on the likelihood of spinoff incompletion.

4.4 Results

Panel A of Table 4.3 shows spinoff announcements with and without a conference call each year from 2002 to 2016. On average, every year, there are 46 spinoffs announced in our sample. Over the 15 years, there are 612 spinoff announcements without conference calls and 88 with conference calls on the day of or the day after the announcement date. As conference calls are costly, time-consuming, and a more advanced communication model, it is understandable that

most firms do not hold such meetings when they announce their intention for spinoff transactions. However, it is interesting to see that the portion of spinoff announcements accompanied by a conference call has increased from 4.8% in 2002 to 28.6% in 2016, reflecting a significant improvement in the transparency environment around this strategic decision. Panel B in Table 4.3 focuses on the distribution of the spinoff announcements with and without a conference call in two periods before and after the recent financial crisis, which also reflects the difference between the 2000s and 2010s. We note that between these two decades, the total number of spinoff announcements is roughly the same. The percentage of spinoff announcements accompanied by conference calls more than doubled from 31.8% before 2010 to 68.2% afterward. Such a significant increase in the number of calls implies better transparency and communication environment in the 2010s compared to the previous decade.

To further deepen our knowledge of the types of spinoffs with and without conference calls, we provide evidence on different parent firms' characteristics in Panel C of Table 4.3. With regard to the final status of announced spinoffs, we have the three categories of *Completed*, *Withdrawn*, and *Abandoned*. The distribution of corporate spinoff announcements shows that the number of announced spinoffs without a conference call is much more than those with a call in all three categories. However, we note that in the class of completed spinoffs, 17.4% had conference calls, while in the withdrawn and abandoned groups, this ratio is 12% and 4.6%, respectively. The difference in the portion of incomplete spinoffs compared to completed ones in holding conference calls implies that calls are associated with spinoff incompletion.

In the next category, as one of the primary underlying reasons mentioned for spinoffs, we examine whether spinoff increases the parent firm's business focus. Focus-increasing spinoff is when the industry sectors of the parent firm and the spun-off division are different. Our sample's distribution shows that when we compare focus-increasing spinoffs with the other group, there is 51% among the spinoff announcements without a conference call. In comparison, only 46.6% of them have a call associated with them. This difference can be because non-focus-increasing spinoffs require more explanation regarding the underlying reason for such a decision than focus-increasing ones that are well known for this divestiture transaction. Another critical aspect of a call's existence is related to whether the parent firm's industry is high-technology. In our sample, about half of our parent firms belong to the high-tech sector, and the portion of spinoff

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announcements with or without a call follows similar proportions in each group. Last, we show our sample's distribution according to their relative industries, where the service industry has the most significant portion of conference calls (17.3%). In contrast, trade, retail, and wholesale have the smallest proportion of calls (4.4%), ignoring the only spinoff in the agriculture industry.

………………Please place Table 4.3 here ……………….

Table 4.4 provides summary statistics for our sample in terms of the parent firm's financial information, board composition, market reaction, ownership structure, and sentiment of the call transcripts. *MB_Ratio*, *ROA*, *Leverage*, and *Size* are industry-adjusted averaged over years –2 and –1 relative to the spinoff announcement year. As a proxy of growth opportunity, *MB_Ratio* shows an average of 1.55, ranging from –50.69 to 56.14, reflecting a diverse sample of firms with a spinoff decision. In terms of profitability, we have different firms with *ROA* as low as –15.78 to as high as 17.52, which shows that even profitable and high-performing firms decide to do a spinoff. Similar diversity in firms' characteristics is depicted for the firm's level of debt, size, and percentage change in stock returns (reflecting volatility). The relative size of the spun-off unit to the parent firm shows an average of 24% ranging from very small deals (1%) to spinoffs almost as large as the parent firm (92%). Board composition and ownership variables also show a very diverse sample of firms. Three-day market reaction to the spinoff announcement is on average a positive 2.5%, which reflects the positive nature of this news. Among the three groups of spinoffs, on average, the highest (lowest) CAR belongs to completed (withdrawn) spinoffs. Negative market reaction to withdrawn spinoff announcements implies bad market timing mentioned by Harris and Madura (2011).

Content analysis of conference calls shows that, on average, calls are 8,376 words long with a minimum length of 2,004 words to a maximum of 27,700 words. The mean positive words are larger than the mean negative ratio of words in the transcript of spinoff calls. Although all sentiment word counts seem very small, each category's range shows that firms have various sentiments in their calls. It is interesting to see whether such a significant change in the negative or positive tone ratio would affect the spinoff completion outcome.

………………Please place Table 4.4 here ……………….

Table 4.5 focuses on three aspects of announced spinoffs in one setting: (1) having a conference call along with the announcement, (2) completion status of the spinoff, and (3) tax

status as a significant influencer in spinoff decision. Panel A shows the number of observations in each category, and Panel B provides the same distribution in a percentage format. We note that overall, the number of total tax-free spinoffs is about 70% more than taxable ones, which implies the important role of tax status in announcing a spinoff decision.

When we add the third aspect—having a conference call—to the mix, we notice that out of 88 spinoffs that hold a call, about 80% of them (70 spinoffs) were taxable, and out of 612 spinoffs without a call, about 70% (427 spinoffs) were tax-free. These findings support the prominent role of tax in holding a conference call with spinoff announcements. Interestingly, among tax-free spinoffs without a call, the abandoned group has the highest numbers with 48.5%, followed by the completed and withdrawn groups with 44% and 7.5%, respectively.

………………Please place Table 4.5 here ……………….

Table 4.6 shows the pairwise correlation matrix for all the continuous variables. We do not find any problematic correlation between variables. Regarding the correlation between control variables and conference call sentiment, we note that the ratio of negative to positive sentiment is significantly and negatively related to *MB_Ratio*, *Board_Diversity*, *Board_Age*, and *CAR*. These relationships suggest that firms with higher growth opportunities, higher ratio of women on the board, older outside board members, and a spinoff decision welcomed by the market have more positive things to say in their conference calls. Whether these positive words mean higher probability of completion will be examined in the following sections.

………………Please place Table 4.6 here ……………….

To examine whether holding a conference call changes the probability of spinoff completion, we use the Probit model where spinoff incompletion is a dummy dependent variable equal to one when the announced spinoff is left incomplete (either withdrawn or abandoned) and zero if it is completed. Table 4.7 shows the Probit regression results with the focus variable *Call* equal to one when the spinoff announcement is accompanied by a conference call, and zero otherwise. Models 1–5 show the results of our full sample using different model specifications with our control variable categories. We provide the results with industry and year fixed effects for each model specification except for cases where it is not feasible to do so. Models 1, 3, and 4 find *Call* to be negatively and significantly associated with the probability of spinoff incompletion, which supports H1 on the importance of having a call and its ex-ante signal of the spinoff plan

ahead. With regard to deal characteristics, better market reaction to the spinoff announcement reduces the likelihood of incompletion. Similar relationships are illustrated for focus-increasing and tax-free spinoffs. Multiple studies have emphasized the importance of focus-increasing spinoffs (Feldman, 2016; Feng et al., 2015). *CEO_Duality* (*Board_Age*) has significant positive (negative) relationship with spinoff incompletion, which shows the importance of board composition in this context.

………………Please place Table 4.7 here ……………….

The findings of Tables 4.8–4.10 show the role of conference call sentiment in providing information on the likelihood of spinoff incompletion using full-sample firms. The analyses in Tables 4.12–4.14 follow a similar configuration, but the observations in the recession period (December 1, 2007 to June 30, 2009) are excluded from the sample. The main sentiment variable is *Neg-to-Pos* ratio, which shows a significant negative association with spinoff incompletion, supporting H3. For interpreting this finding, we can focus on net changes of positive or negative words and derive different implications. For example, one interpretation is that a reduction of *Neg-to-Pos* is associated with a higher chance of spinoff incompletion. In other words, there is a higher chance that an announced spinoff never gets completed when there is a higher portion of positive words to negative words in the conference call discussions. This interpretation is in line with the impression management hypothesis and the notion of managerial deception in conference calls, as Larcker and Zakolyukina (2012) explain. Consistent with the results in Table 4.7, we find a negative association between spinoff incompletion likelihood and market reaction (*CAR*), *Focus*, *Tax_Free*, and *Board_Age*. Combining the CEO and chairman title also keeps its influential role in spinoff incompletion.

………………Please place Table 4.8 here ……………….

In order to understand the impact of positive or negative tones on changes of *Neg-to-Pos* and improve our interpretation of Table 4.8's findings, we run similar Probit models using *POSITIVE* and *NEGATIVE* measures in Tables 4.9 and 4.10, respectively. As Model 5 in Table 4.9 shows, *POSITIVE* has a significant and positive relationship with the probability of spinoff incompletion, whereas *NEGATIVE* shows no significant relationship in any of the models in Table 4.10. The combination of these results once again confirms the notion of impression management

used in conference calls where firms express very positive words about the spinoff decision without actually completing it.

………………Please place Tables 4.9 and 4.10 here……………….

As a robustness test, when we remove the spinoff announcements during the recession period (December 1, 2007 to June 30, 2009) in Tables 4.11–4.14, we find similar results that support H1 and H3. Holding a call reduces the possibility of spinoff incompletion, but talking overly positive in these meetings is actually associated with a higher chance of incompletion. Interestingly, Model 5 of Table 4.14 shows that a higher ratio of negative words in the call is associated with a lower probability of incompletion. This finding suggests that negative words do not necessarily reflect problems, and they may be a sign of productive and analytical discussion over the proposed spinoff plan, which is eventually beneficial for its execution.

………………Please place Tables 4.11–4.14 here ……………….

4.5 Conclusion

US corporate spinoff reality from 1980 to 2016 shows that about 40% of all announced spinoffs never get completed and are instead officially withdrawn or abandoned. Because corporate spinoff is generally value enhancing, its incompletion can be a lost gain for investors, making it a relevant investigation topic. Since corporate executives decide to propose spinoff and its subsequent reversion, there can be clues about the spinoff plan among information disseminated by the firm's insiders. To find a way to predict the chances of spinoff completion at the time of the announcement, we propose that the existence/lack of a conference call and the tone of the call transcript signal the probability of spinoff completion. Our analyses on a sample of 700 US spinoffs show that spinoff announcements accompanied by a call are more likely to be completed. Also, the higher level of positive to negative tones in the call transcript is associated with a higher probability of spinoff incompletion. When spinoff is focus increasing and tax-free and when the market reacts favorably to the announcement, there is a lower likelihood of spinoff incompletion. Moreover, in terms of board attributes, we show that older nonexecutive board members lower the probability of spinoff incompletion. Our findings extend the literature of corporate spinoff and

conference calls as we provide evidence on the role of holding a call and shed some light on the issue of impression management in these calls.

Spinoff incompletion has been rarely investigated in prior studies.[20] Despite challenges in data collection, in this paper, we aim to add to our knowledge about this strategic corporate event. First, we examine a unique information channel where the parent firm's insiders are exposed to open questions from analysts and investors. We provide evidence on the significance of conference calls in predicting the likelihood of spinoff completion. Second, we use sentiment analysis techniques to examine the signaling power of positive, negative, and the ratio of negative to positive call tones regarding spinoff completion probability. Our results are beneficial to investors, analysts, and practitioners who are interested in corporate spinoffs. We show that different firm, deal, and informational environment attributes ex ante signal about the spinoff completion, which can be incorporated in interested parties' decision process.

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[20] Alli et al. (2001) and Harris and Madura (2011) are limited to corporate withdrawals, and neither of them focus on how the existence and tone of conference calls play a role in predicting the eventual status of spinoffs.

Chapter 5: Final Remarks

This study adds to our understanding of corporate spinoff incompletion as one of the corporate restructuring decisions. First, we examine the value relevancy of such a phenomenon by comparing the long-term performances of incomplete and completed spinoffs. Second, we focus on the board of directors as the monitoring and advising body in approving spinoff decisions and examine the explanatory role of each board characteristic in the likelihood of spinoff incompletion. Third, we explore the information dissemination practices of managers at the time of spinoff announcement. We conclude this thesis by analyzing the power of holding a conference call in reducing information asymmetry between managers and outsiders and the signaling role of call sentiment in predicting the possibility of spinoff incompletion.

Our sample includes the US announced corporate spinoffs during 1980-2016, where the outcome of the decision is either completion or incompletion. The sample of incomplete spinoffs shows that only in a portion of cases the parent firm officially announces the withdrawal. So far in the literature, only two studies examine the incomplete spinoffs and only focus on the withdrawn subsample (Alli et al., 2001; Harris & Madura, 2011). In this thesis, to further our knowledge on incomplete spinoffs, for the first time in the spinoffs literature, we examine two types of incomplete spinoffs: 1) Withdrawn spinoffs, where the parent firm officially announces the withdrawal decision, and 2) Abandoned spinoffs, where the parent firm neither completes nor officially withdraws from the transaction for at least 458 days after the announcement.

Our findings show that spinoff incompletion has damaging effects on the firm's accounting and financial performances measured by EBIDTA/Sales and BHAR, respectively. In addition, we find that CEO duality is positively associated with the chance of incompletion. In contrast, older non-executive directors, more independent members, and non-executive members with longer tenure are associated with a lower probability of spinoff incompletion. We also find that focus increasing spinoffs and those that experience a positive market reaction to their announcements are less likely to stay incomplete. In the subsample of incomplete spinoffs, we find a negative relationship between the possibility of spinoff abandonment and average board tenure, board independence, the board size, board diversity, and board age. Our results on the information environment around spinoff announcements show that holding a conference call decreases the probability of deal incompletion. Also, the higher the ratio of positive to negative words in the call

transcripts is significantly and positively associated with spinoff incompletion. This interesting finding implies that managers utilize a more positive tone in conference calls to impress the stakeholders about the prospects of the spinoff transaction but eventually leave it incomplete. According to our findings, in addition to focus increasing and favorable market reaction explanatory factors, we show that tax-free status is also associated with less chance of incompletion.

This thesis adds to our knowledge on the understudied topic of spinoff incompletion in several ways. First, it provides evidence on the value-destroying effects of spinoff incompletion, which shows the importance of this topic for stakeholders. Second, it shows the role of board composition in the final status of announced spinoffs. Third, it distinguishes between firms that abandon their announced spinoff with no further communication and those that officially announce a withdrawal decision. Fourth, we examine conference calls and their sentiment as unique information channels where the parent firm's insiders are exposed to open questions from outsiders. Finally, our results show that different firm, deal, and informational attributes influence the probability of spinoff incompletion. These findings are beneficial to shareholders, analysts, and practitioners interested in/ affected by the corporate spinoff transactions.

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Tables

Table 3. 1 – Variable Definitions

This table presents the definition of dependent and independent variables used in this study. All variables in the dollar unit are adjusted for inflation (1999 base-year) and the exchange rate (to convert to US dollars).

Variable	Definition
Completed	Dummy equal to 1 if the spinoff is officially completed, and zero otherwise.
Withdrawn	Dummy equal to 1 if the spinoff is officially withdrawn, and zero otherwise.
Abandoned	Dummy equal to 1 if the spinoff is neither officially withdrawn nor completed at least 458 days after the announcement date, and zero otherwise[21].
Focus	Dummy equal to 1 when 2-digit SIC code of parent and unit are different and zero otherwise.
High_Tech	Dummy equal to 1 for parent firms in high-technology industries (with 2-digit SIC code of 28,35,36,73,87), and zero otherwise.
MB_Ratio	Industry-adjusted (4-digit SIC code) market-to-book of equity for parent firm, averaged over years -2 and -1 relative to the announcement year.
ROA	Industry-adjusted (4-digit SIC code) return on assets for parent firm, averaged over years -2 and -1 relative to the announcement year. Return is earnings before interest, tax, depreciation, and amortization.
Leverage	Industry-adjusted (4-digit SIC code) total debt divided by total assets in book value, averaged over years -2 and -1 relative to the announcement year.
Size	Industry-adjusted (4-digit SIC code) natural logarithm of total assets of parent averaged over years -2 and -1 relative to the announcement year.

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[21] The number of days between spinoff announcement date and completion date for the full sample during 1980-2016 is equal to 458 days at the 90th percentile.

Volatility	The standard deviation of daily returns for the ninety trading-day period ending ten days prior to the announcement date.
Recession	Dummy equal 1 for spinoffs announced during US recession periods: January 1st, 1980-July 31st, 1980; July 1st, 1981-November 30th, 1982; July 1st, 1990-March 31st, 1991; March 1st, 2001-November 30th, 2001; December 1st, 2007-June 30th, 2009. Source: *National Bureau of Economic Research* (*NBER*).
EBITDA/Sales	Industry-adjusted (4-digit SIC code) earnings before interest, tax, depreciation, and amortization divided by total sales.
Board_Independence	Percentage of non-executive directors (NEDs) over total board members, at the beginning of the announcement year.
Board_Diversity	Percentage of female directors over total board members, at the beginning of the announcement year.
Board_Age	Average age of non-executive directors, at the beginning of the announcement year.
Board_Tenure	Average tenure of non-executive directors in the company, at the beginning of the announcement year.
CEO_duality	Dummy variable equal to 1 if CEO is also chairman of the board and 0 otherwise, at the beginning of the announcement year.
Board_Size	Number of all board members, at the beginning of the announcement year.
Inst_Block_Own	Percentage of institutional block ownership according to the 13f filing records before the announcement date.
CAR	Three-day cumulative abnormal return around the announcement date, (-1, +1).
Relative_Size	Market cap of the spun-off unit divided by the sum of market cap of the parent and of the spun-off firm for completed sub-sample on the day of completion (effective date).
Tax_Free	Dummy equal to 1 if spinoff is considered tax-free according to section 355 of the United States Internal Revenue Code (IRC), and zero otherwise.

Table 3. 2 – Sample Distribution

This table presents the annual sample distribution of announced spinoffs in Panel A, and the breakdown in decades in Panel B. Financial services and Utility companies are excluded.

A. Annual	Completed Freq.	Withdrawn Freq.	Abandoned Freq.	Total Freq.	Completed %	Withdrawn %	Abandoned %	Total %	Completed %	Withdrawn %	Abandoned %	Total %
1980	2	0	0	2	0.2	0.0	0.0	0.1	100.0	0.0	0.0	100.0
1981	1	0	0	1	0.1	0.0	0.0	0.1	100.0	0.0	0.0	100.0
1982	2	0	0	2	0.2	0.0	0.0	0.1	100.0	0.0	0.0	100.0
1983	13	0	10	23	1.4	0.0	3.0	1.5	56.5	0.0	43.5	100.0
1984	10	2	14	26	1.1	0.8	4.2	1.7	38.5	7.7	53.8	100.0
1985	17	4	1	22	1.8	1.6	0.3	1.4	77.3	18.2	4.5	100.0
1986	25	7	0	32	2.7	2.7	0.0	2.1	78.1	21.9	0.0	100.0
1987	19	3	3	25	2.0	1.2	0.9	1.6	76.0	12.0	12.0	100.0
1988	27	13	1	41	2.9	5.1	0.3	2.7	65.9	31.7	2.4	100.0
1989	20	12	3	35	2.1	4.7	0.9	2.3	57.1	34.3	8.6	100.0
1990	28	14	2	44	3.0	5.5	0.6	2.9	63.6	31.8	4.5	100.0
1991	11	8	1	20	1.2	3.1	0.3	1.3	55.0	40.0	5.0	100.0
1992	28	19	0	47	3.0	7.4	0.0	3.1	59.6	40.4	0.0	100.0
1993	26	15	1	42	2.8	5.9	0.3	2.8	61.9	35.7	2.4	100.0
1994	25	10	1	36	2.7	3.9	0.3	2.4	69.4	27.8	2.8	100.0
1995	38	11	9	58	4.1	4.3	2.7	3.8	65.5	19.0	15.5	100.0
1996	41	20	8	69	4.4	7.8	2.4	4.5	59.4	29.0	11.6	100.0
1997	40	18	9	67	4.3	7.0	2.7	4.4	59.7	26.9	13.4	100.0
1998	45	13	4	62	4.8	5.1	1.2	4.1	72.6	21.0	6.5	100.0
1999	41	15	6	62	4.4	5.9	1.8	4.1	66.1	24.2	9.7	100.0
2000	53	16	11	80	5.7	6.3	3.3	5.2	66.3	20.0	13.8	100.0
2001	17	6	7	30	1.8	2.3	2.1	2.0	56.7	20.0	23.3	100.0
2002	19	10	13	42	2.0	3.9	3.9	2.8	45.2	23.8	31.0	100.0
2003	25	3	13	41	2.7	1.2	3.9	2.7	61.0	7.3	31.7	100.0
2004	25	5	12	42	2.7	2.0	3.6	2.8	59.5	11.9	28.6	100.0

2005	27	3	15	45	2.9	1.2	4.5	2.9	60.0	6.7	33.3	100.0
2006	24	2	18	44	2.6	0.8	5.4	2.9	54.5	4.5	40.9	100.0
2007	45	1	27	73	4.8	0.4	8.1	4.8	61.6	1.4	37.0	100.0
2008	41	3	15	59	4.4	1.2	4.5	3.9	69.5	5.1	25.4	100.0
2009	20	0	23	43	2.1	0.0	6.9	2.8	46.5	0.0	53.5	100.0
2010	15	2	17	34	1.6	0.8	5.1	2.2	44.1	5.9	50.0	100.0
2011	25	6	22	53	2.7	2.3	6.6	3.5	47.2	11.3	41.5	100.0
2012	28	2	12	42	3.0	0.8	3.6	2.8	66.7	4.8	28.6	100.0
2013	35	8	15	58	3.7	3.1	4.5	3.8	60.3	13.8	25.9	100.0
2014	46	3	15	64	4.9	1.2	4.5	4.2	71.9	4.7	23.4	100.0
2015	23	2	14	39	2.5	0.8	4.2	2.6	59.0	5.1	35.9	100.0
2016	11	0	10	21	1.2	0.0	3.0	1.4	52.4	0.0	47.6	100.0
Total	**938**	**256**	**332**	**1,526**	**100.0**	**100.0**	**100.0**	**100.0**	**61.5**	**16.8**	**21.8**	**100.0**

B. Decade

1980 - 1989	136	41	32	209	14.5	16.0	9.6	13.7	65.1	19.6	15.3	100.0
1990 - 1999	323	143	41	507	34.4	55.9	12.3	33.2	63.7	28.2	8.1	100.0
2000 - 2009	296	49	154	499	31.6	19.1	46.4	32.7	59.3	9.8	30.9	100.0
2010 - 2016	183	23	105	311	19.5	9.0	31.6	20.4	58.8	7.4	33.8	100.0
Total	**938**	**256**	**332**	**1,526**	**100.0**	**100.0**	**100.0**	**100.0**	**61.5**	**16.8**	**21.8**	**100.0**

Table 3. 3 – Sample Distribution by Spin-off Status, Types, and Industries

This table presents distribution of announced spinoffs based on focus-increasing nature of spinoff in Panel A, parent firms' high-tech industry in Panel B, and different industries in Panel C.

	Completed	Withdrawn	Abandoned	Total	Completed	Withdrawn	Abandoned	Total
	Freq.	Freq.	Freq.	Freq.	%	%	%	%
A. Focus_Increasing								
Not Focus Increasing	399	112	169	680	42.5	43.8	50.9	44.6
Focus Increasing	539	144	163	846	57.5	56.3	49.1	55.4
Total	938	256	332	1,526	100.0	100.0	100.0	100.0
B. Parent from High-tech								
No	569	172	187	928	60.7	67.2	56.3	60.8
Yes	369	84	145	598	39.3	32.8	43.7	39.2
Total	938	256	332	1,526	100.0	100.0	100.0	100.0
C. Industry								
Mining and construction	70	23	34	127	7.5	9.0	10.2	8.3
Manufacturing	609	145	219	973	64.9	56.6	66.0	63.8
Agriculture	2	0	1	3	0.2	0.0	0.3	0.2
Transportation and communication	95	35	31	161	10.1	13.7	9.3	10.6
Trade, retial and wholesale	84	28	22	134	9.0	10.9	6.6	8.8
Service	78	25	25	128	8.3	9.8	7.5	8.4
Total	938	256	332	1,526	100.0	100.0	100.0	100.0

Table 3. 4 – Summary Statistics

This table gives descriptive statistics for the full sample. Please refer to Table 3.1 for variable definitions.

	Obs.	Mean	STD	Min	Median	Max
Firm Characteristics:						
Size (Ln)	978	1.6172	3.0110	-10.6000	1.6400	9.8900
Size_Completed (Ln)	648	1.9797	2.7755	-9.2600	1.8600	9.8900
Size_Withdrawn (Ln)	173	1.6092	2.8506	-7.6000	1.4700	7.5400
Size_Abandoned (Ln)	157	0.1297	3.6192	-10.6000	0.3000	7.3700
MB_Ratio	950	0.8197	6.9320	-25.9000	0.0000	28.0500
ROA	978	0.5058	1.5930	-13.7900	0.1100	14.8300
Leverage	978	-0.0787	3.0273	-30.2400	0.0100	31.0900
Volatility	789	0.0241	0.0116	0.0000	0.0200	0.0500
Relative_Size	538	0.2482	0.2119	0.0000	0.1900	1.0000
Market Reaction:						
CAR	791	0.0311	0.1083	-0.7276	0.0238	0.7097
CAR_Completed	527	0.0348	0.0937	-0.4302	0.0249	0.5595
CAR_Withdrawn	145	0.0086	0.1428	-0.7276	0.0064	0.7097
CAR_Abandoned	119	0.0424	0.1172	-0.2835	0.0242	0.6740
Ownership Structure:						
Inst_Block_Own	1526	0.0478	0.1029	0.0000	0.0000	0.8073
Board Composition:						
Board_Size	483	9.5155	3.1348	1.0000	10.0000	20.0000
Board_Independence	483	0.7979	0.1560	0.0000	0.8571	1.0000
Board_Diversity	483	0.1133	0.1020	0.0000	0.1110	0.6670
Board_Age	475	62.9673	6.4720	41.0000	62.9673	85.0000
Board_Tenure	475	7.2262	4.2152	0.0000	6.9400	22.0889

Table 3. 5 – Correlation Matrix

This table shows the Pearson correlation coefficients for the main variables for non-missing data items for the full sample. Please refer to Table 3.1 for variable definitions. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance levels respectively.

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Size	1.000												
2 MB_Ratio	-0.051	1.000											
3 ROA	0.205***	0.493***	1.000										
4 Leverage	-0.209***	-0.001	0.076	1.000									
5 Volatility	-0.194***	0.032	0.047	0.122*	1.000								
6 Relative_Size	-0.099	-0.096	-0.017	0.017	0.032	1.000							
7 Board_size	0.375***	0.014	0.017	-0.102	-0.358***	-0.182***	1.000						
8 Board_independence	0.190***	0.094	0.088	0.011	-0.328***	0.060	0.253***	1.000					
9 Board_diversity	0.181***	0.052	0.015	-0.095	-0.232***	-0.191***	0.350***	0.272***	1.000				
10 Board_age	-0.089	0.085	-0.023	-0.080	-0.139**	-0.013	-0.008	0.062	-0.069	1.000			
11 Board_tenure	-0.022	-0.102	-0.045	-0.041	-0.207***	0.068	0.060	0.052	-0.004	0.270***	1.000		
12 CAR	-0.005	-0.036	0.033	0.064	0.072	0.061	-0.112*	0.028	0.069	0.027	0.047	1.000	
13 Inst_Block_Own	-0.208***	-0.108	0.120*	-0.068	0.124*	0.124*	-0.235***	-0.024	-0.104	0.129*	0.054	0.049	1.000

Table 3. 6 – Profitability (EBITDA/Sales) Before and After Spinoff Announcement

This table presents past performances are *-t* years before the announcement date (denoted with "b"), and future performances are *t* years after the announcement date (denoted with "a"). Models 1, 2, and 3 use the whole sample period from 1980-2016 and Models 4, 5, and 6 use the same period without the years of economic recession. For each performance measure, the first row shows the mean, second row is the p-value, and the third row is the number of observations. Models 1 and 4 are t-test comparing following the performance with the prior one (a-b) in completed spinoffs, Models 2 and 5 are test similarly, but in incomplete spinoffs, and Models 3 and 6 are two-sample mean t-test comparing the difference in performances between completed and incomplete spinoffs. *, ** and *** denote the 10%, 5% and 1% significance level respectively. Please refer to Table 3.1 for variable definitions.

		Model 1 Completed	Model 2 Incomplete	Model 3 Diff.	Model 4 Completed	Model 5 Incomplete	Model 6 Diff.
EBITDA_to_SALES_1b	EBITDA_to_SALES_1a	-.033 **	-.063 ***	0.03	-.034 **	-.05 **	0.016
		(.024)	(.006)	(.256)	(.022)	(.023)	(.546)
		532	231		497	213	
EBITDA_to_SALES_1b	EBITDA_to_SALES_2a	-.015	-.013	-.002	-.02 **	-.01	-.01
		(.115)	(.381)	(.902)	(.04)	(.518)	(.585)
		502	213		469	196	
EBITDA_to_SALES_1b	EBITDA_to_SALES_3a	-.011	-.004	-.007	-.017 *	-.001	-.016
		(.265)	(.690)	(.698)	(.097)	(.911)	(.377)
		471	189		440	175	
EBITDA_to_SALES_1b	EBITDA_to_SALES_4a	-.003	.002	-.006	-.011	.007	-.018
		(.706)	(.826)	(.716)	(.225)	(.569)	(.281)
		421	164		391	151	
EBITDA_to_SALES_1b	EBITDA_to_SALES_5a	0	.002	-.002	-.004	.006	-.01
		(.977)	(.841)	(.865)	(.616)	(.596)	(.489)
		365	146		337	133	
EBITDA_to_SALES_2b	EBITDA_to_SALES_1a	-.002	-.06 ***	**.058 *** **	-.002	-.046 **	**.044 *** **
		(.761)	(.004)	**(.002)**	(.749)	(.017)	**(.007)**
		492	227		458	210	
EBITDA_to_SALES_2b	EBITDA_to_SALES_2a	-.008	-.029 **	.021	-.013	-.026 *	.013
		(.381)	(.04)	(.178)	(.127)	(.075)	(.408)
		464	213		432	197	
EBITDA_to_SALES_2b	EBITDA_to_SALES_3a	-.011	-.011	0	-.019 *	-.008	-.011
		(.248)	(.345)	(.992)	(.062)	(.545)	(.521)
		439	189		409	175	
EBITDA_to_SALES_2b	EBITDA_to_SALES_4a	-.008	.002	-.01	-.018 **	.007	-.025
		(.367)	(.876)	(.534)	(.045)	(.589)	(.124)
		397	164		368	151	

EBITDA_to_SALES_2b	EBITDA_to_SALES_5a	-.001	.003	-.004	-.006	.009	-.015
		(.906)	(.812)	(.778)	(.423)	(.566)	(.338)
		348	148		321	135	
EBITDA_to_SALES_3b	EBITDA_to_SALES_1a	-.01	-.087 ***	**.077 *****	-.01	-.08 **	**.069 *****
		(.261)	(.006)	**(.002)**	(.142)	(.012)	**(.004)**
		474	225		443	207	
EBITDA_to_SALES_3b	EBITDA_to_SALES_2a	-.015 *	-.04 **	.024	-.021 **	-.044 **	.023
		(.085)	(.034)	(.181)	(.017)	(.024)	(.215)
		448	210		419	193	
EBITDA_to_SALES_3b	EBITDA_to_SALES_3a	-.015	-.013	-.002	-.021 **	-.009	-.013
		(.125)	(.256)	(.894)	(.023)	(.457)	(.426)
		423	186		396	172	
EBITDA_to_SALES_3b	EBITDA_to_SALES_4a	-.008	-.008	.001	-.017 **	-.004	-.013
		(.312)	(.433)	(.971)	(.021)	(.74)	(.328)
		383	161		356	148	
EBITDA_to_SALES_3b	EBITDA_to_SALES_5a	-.001	-.009	.008	-.007	-.005	-.002
		(.877)	(.418)	(.532)	(.278)	(.701)	(.858)
		337	145		312	131	

Table 3. 7 – Parents and Spun-Off Units' Long Term Stock Return

This table presents the long-term market performance of the remaining parents in the completed sub-sample, the spun-off unit, as well as parents firms that either withdrew their spinoff decision or just abandoned the plan. The buy-and-hold abnormal returns are calculated using a portfolio of five matched firms for each parent firm in our sample and the relevant spun-off unit. The matching criteria include year, SIC code, market-to-book ratio, and size from the Universe of Compustat. *, ** and *** denote the 10%, 5% and 1% significance levels respectively.

	Portfolio-Matched-Firm-Adjusted BHAR				
	12 Months	24 Months	36 Months	48 Months	60 Months
Completed (N=360)	-.119 **	-.288 **	-.049	11.61	-.244
t-statistic	(-2.234)	(-2.468)	(-.097)	(.873)	(-.062)
Spun-off Unit (N=170)	-.31 **	-.395 ***	-.792 ***	-4.704	-2.005 **
t-statistic	(-2.045)	(-2.836)	(-2.663)	(-1.115)	(-2.188)
Withdrawn (N=81)	-.027	-.457 **	-.946 **	-.891 *	-1.953
t-statistic	(-.247)	(-2.031)	(-2.082)	(-1.686)	(-1.461)
Abandoned (N=72)	-.766	-14.962	-14.906	-.584	-1.32
t-statistic	(-1.076)	(-.992)	(-1.01)	(-1.055)	(-1.47)

Table 3. 8 – Parent Firm Long Term Stock Return using Portfolio-Matched-Firm-Adjusted BHAR

Panel A presents long-term stock return analyses of the remaining parent firm in the completed sub-sample compared to the incomplete group starting from the date of spinoff announcements and ending in 12, 24, 36, 48 and 60 months afterward. Mean difference test for two sub-samples. The buy-and-hold abnormal returns are calculated using a portfolio of five matched firms for each parent firm in our sample and the relevant spun-off unit. The matching criteria include year, SIC code, market-to-book ratio, and size from the Universe of Compustat. Sections 1 to 4 show the difference in mean Return is mean (Completed) - mean (Incomplete), mean (Completed) – mean (Withdrawn), mean (Completed) – mean (Abandoned), mean (Withdrawn) – mean (Abandoned), respectively. Panel B represents similar analyses where the BHAR of the remaining parent firm in completed spinoffs is combined with the BHAR of the spun-off unit on a weighted average basis. BHAR of the spun-off unit is also computed against the matched portfolio based on year, SIC, market-to-book ratio, size from the Universe of Compustat. Number of observations is based on the available observations in the 12-month period. *, ** and *** denote the 10%, 5% and 1% significance levels, respectively.

		Portfolio-Matched-Firm-Adjusted BHAR				
A. Difference in Mean Returns using Remaining Parent		12 Months	24 Months	36 Months	48 Months	60 Months
1	Mean (Completed, N = 360) - Mean (Incomplete, N = 153)	.256	6.938	7.419 *	12.359	1.432
	t-statistic	(1.084)	(1.526)	(1.666)	(.586)	(.225)
2	Mean (Completed, N = 360) - Mean (Withdrawn, N = 81)	-.092	.168	.897	12.501	1.709
	t-statistic	(-.744)	(.625)	(.807)	(.434)	(.201)
3	Mean (Completed, N = 360) - Mean (Abandoned, N = 72)	.647 *	14.674 **	14.857 **	12.195	1.075
	t-statistic	(1.912)	(2.212)	(2.289)	(.394)	(.112)
4	Mean (Withdrawn, N = 81) - Mean (Abandoned, N = 72)	.739	14.505	13.96	-.307	-.634
	t-statistic	(1.086)	(1.028)	(1.01)	(-.4)	(-.37)
B. Difference in Mean Returns using Combined Parent and Spun-off Unit		12 Months	24 Months	36 Months	48 Months	60 Months
1	Mean (Combined, N = 67) - Mean (Incomplete, N = 153)	.095	6.773	6.711	-8.125	-.247
	t-statistic	(.182)	(.684)	(.68)	(-1.522)	(-.16)
2	Mean (Combined, N = 67) - Mean (Withdrawn, N = 81)	-.253	.004	.189	-7.982	.03
	t-statistic	(-1.593)	(.013)	(.342)	(-1.094)	(.016)
3	Mean (Combined, N = 67) - Mean (Abandoned, N = 72)	.486	14.509	14.149	-8.289	-.604
	t-statistic	(.651)	(1.002)	(.981)	(-1.059)	(-.388)
4	Mean (Withdrawn, N = 81) - Mean (Abandoned, N = 72)	.739	14.505	13.96	-.307	-.634
	t-statistic	(1.086)	(1.028)	(1.01)	(-.4)	(-.37)

Table 3. 9 – Long Term Stock Return of Remaining Parent and the Combined Parent and Spun-off Unit in Completed Spinoffs

This table presents the comparative long-term market performance of the remaining parent (completed) and the value-weighted combination of the remaining parent and the spun-off unit (combined) in the sub-sample of completed spinoffs. The buy-and-hold abnormal returns are calculated using a portfolio of five matched firms for each parent firm in our sample and the relevant spun-off unit. The matching criteria include year, SIC code, market-to-book ratio, and size from the Universe of Compustat. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance levels, respectively.

	Portfolio-Matched-Firm-Adjusted BHAR				
Difference in Mean Returns	12 Months	24 Months	36 Months	48 Months	60 Months
Mean (Completed - Combined)	.135 **	.238 **	.236 *	8.108	1.209
t-statistic	(2.094)	(2.092)	(1.351)	(1.019)	(.994)
Obs.	67	76	67	57	47

Table 3. 10 – Parent Firm Long Term Stock Return using In-Sample-Matched-Firm-Adjusted BHAR

Panel A presents long-term stock return of the remaining parent firm in the completed sub-sample compared to the incomplete group starting from the announcements date and ending in 12, 24, 36, 48 and 60 months afterward. Mean return is the difference between buy-and-hold return (BHR) on Completed vs. Incomplete, Completed vs. Withdrawn, Completed vs. Abandoned, and Withdrawn vs. Abandoned. For Completed spinoffs, the BHR is related to the remaining parent firm. We use in-sample matching process where the two comparing sub-samples are matched together based on size, industry. %positive shows the portion of positive mean returns. Panel B represents similar analyses where the buy-and-hold return of the remaining parent firm in completed spinoffs is combined with the buy-and-hold return of the spun-off unit on a weighted-average basis. Number of observations is based on the available observations in the 12-month period. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance levels, respectively.

	In-Sample-Matched-Firm-Adjusted BHAR				
A. Mean Return % using Remaining Parent	**12 Months**	**24 Months**	**36 Months**	**48 Months**	**60 Months**
1 Completed - Incomplete (N=179)	.11 *	.204 **	.302 *	.529 ***	.378 **
t-statistic	(1.882)	(2.153)	(1.823)	(2.901)	(2.041)
% positive	59.22 %	62.73 %	61.22 %	58.09 %	60.33 %
2 Completed - Withdrawn (N=106)	.121	.261 **	.416 **	.469 **	.493 **
t-statistic	(1.649)	(2.15)	(2.509)	(2.046)	(2.064)
% positive	57.55 %	65.63 %	62.07 %	57.83 %	65.28 %
3 Completed - Abandoned (N=73)	.093	.12	.136	.622 **	.208
t-statistic	(.973)	(.788)	(.415)	(2.06)	(.708)
% positive	61.64 %	58.46 %	60 %	58.49 %	53.06 %
4 Withdrawn - Abandoned (N=33)	.496	-.075	.123	.001	.227
t-statistic	(1.381)	(-.367)	(.703)	(.007)	(.701)
% positive	54.55 %	45.16 %	53.57 %	44.44 %	72.73 %
B. Mean Return % using Combined Parent and Spun-off Unit	**12 Months**	**24 Months**	**36 Months**	**48 Months**	**60 Months**
1 Combined - Incomplete (N=66)	.084	.196	.45 **	.595 **	.404
t-statistic	(.896)	(1.138)	(2.404)	(2.137)	(1.455)
% positive	60.61 %	58.06 %	58.93 %	60.47 %	60.61 %
2 Combined - Withdrawn (N=44)	.083	.205	.295	.519	.343
t-statistic	(.641)	(1.053)	(1.301)	(1.502)	(1.063)
% positive	56.82 %	59.52 %	56.41 %	61.29 %	59.09 %
3 Combined - Abandoned (N=22)	.087	.177	.806 **	.792	.526
t-statistic	(.741)	(.504)	(2.48)	(1.707)	(.96)
% positive	68.18%	55 %	64.71%	58.33 %	63.64 %
4 Withdrawn - Abandoned (N=33)	.496	-.075	.123	.001	.227
t-statistic	(1.381)	(-.367)	(.703)	(.007)	(.701)
% positive	54.55 %	45.16 %	53.57 %	44.44 %	72.73 %

Table 3. 11 – Board Composition and Probability of Spinoff Incompletion (Full sample)

This table shows the Probit regression analyses of the relationship between the likelihood of spinoff incompletion and board composition and other deal and firm attributes. We report the estimated coefficients and their t-statistics. The dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (whether abandoned or withdrawn) and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. *, **, and *** denote the 10%, 5%, and 1% significance levels, respectively. Please refer to Table 3.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Board Attributes:										
Board_Independence	-1.1185*									-1.2289
	(-1.654)									(-1.387)
Ln(Board_Size)		-0.2756								0.5387
		(-0.953)								(1.455)
Board_Diversity			-0.0379							-0.0554
			(-0.044)							(-0.053)
CEO_Duality				0.4806***						0.5502***
				(2.958)						(3.175)
Ln(Board_Age)					-2.2514***					-1.4734*
					(-3.281)					(-1.704)
Ln(Board_Tenure)						-0.2344*				-0.1487
						(-1.660)				(-0.897)
Ownership Structure:										
Inst_Block_Own							-0.7980*		-0.7507*	0.1633
							(-1.856)		(-1.744)	(0.282)
Deal Characteristics:										
CAR								-0.4650	-0.4619	0.0111
								(-0.932)	(-0.928)	(0.011)
Focus								-0.2581**	-0.2582**	-0.3020*
								(-2.482)	(-2.479)	(-1.872)
High_Tech								0.1946*	0.1862*	0.0742
								(1.722)	(1.649)	(0.383)
Tax_Free										-1.3996***
										(-8.383)
Firm Characteristics:										
Size	-0.0292	-0.0290	-0.0434	-0.0501	-0.0487	-0.0408	-0.0387*	-0.0258	-0.0275	-0.0054
	(-0.933)	(-0.864)	(-1.373)	(-1.606)	(-1.634)	(-1.374)	(-1.918)	(-1.220)	(-1.306)	(-0.139)
ROA	-0.0006	0.0003	0.0068	0.0179	0.0033	0.0035	0.0497	0.0151	0.0190	-0.0519
	(-0.012)	(0.006)	(0.131)	(0.336)	(0.062)	(0.067)	(1.209)	(0.352)	(0.445)	(-0.767)
Leverage	0.0178	0.0154	0.0152	0.0235	0.0153	0.0161	0.0298	0.0327	0.0338	0.0229
	(0.478)	(0.423)	(0.420)	(0.640)	(0.424)	(0.445)	(0.752)	(0.816)	(0.857)	(0.528)

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Volatility	2.4096	0.7737	2.5027	3.4860	0.4301	1.2257	12.8690***	12.7456***	13.4114***	2.6021
	(0.351)	(0.110)	(0.366)	(0.503)	(0.063)	(0.178)	(2.829)	(2.711)	(2.844)	(0.323)
MB_Ratio	0.0011	0.0028	0.0036	0.0015	0.0044	0.0014	0.0023	-0.0021	-0.0037	-0.0246**
	(0.119)	(0.300)	(0.378)	(0.159)	(0.455)	(0.143)	(0.292)	(-0.256)	(-0.451)	(-2.351)
Market Condition:										
Recession	-0.1813	-0.2518	-0.2470	-0.1941	-0.4014	-0.2789	-0.2549	-0.2236	-0.2613	-0.8320
	(-0.330)	(-0.467)	(-0.459)	(-0.374)	(-0.755)	(-0.520)	(-0.743)	(-0.671)	(-0.782)	(-1.468)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Cons.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	372	372	372	372	372	372	759	745	745	367
Pseudo R2	0.07	0.07	0.07	0.09	0.09	0.07	0.06	0.07	0.07	0.28

Table 3. 12 – Board Composition and Probability of Spinoff Abandonment (Incomplete Spinoffs Sub-sample)

This table shows the Probit regression analyses of the relationship between the likelihood of spinoff abandonment and board composition and other deal and firm attributes. We report the estimated coefficients and their t-statistics. The dependent variable is Abandoned Dummy equal to 1 if the spinoff is neither officially withdrawn nor completed at least 458 days after the announcement date, and zero otherwise. The number of days between spinoff announcement date and completion date for the full sample during 1980-2016 is equal to 458 days at the 90th percentile. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance levels, respectively. Please refer to Table 3.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Board Attributes:										
Board_Independence	-5.7600***									-3.3302**
	(-3.994)									(-1.976)
Ln(Board_Size)		-3.0542***								-1.4036
		(-4.004)								(-1.442)
Board_Diversity			-5.9850***							-5.8598**
			(-3.754)							(-2.390)
CEO_Duality				0.3063						0.4994
				(0.846)						(1.116)
Ln(Board_Age)					-5.5890***					-5.1148**
					(-3.455)					(-2.372)
Ln(Board_Tenure)						-0.1242				0.3873
						(-0.427)				(0.982)
Ownership Structure:										
Inst_Block_Own							-0.9049		-0.8596	-2.0197
							(-0.990)		(-0.928)	(-1.473)
Deal Characteristics:										
CAR								2.8031***	2.8131***	1.2087
								(3.289)	(3.318)	(0.897)
Focus								-0.3518	-0.3613	-0.5005
								(-1.526)	(-1.544)	(-1.158)
High_Tech								0.2278	0.1937	-0.5148
								(0.903)	(0.770)	(-0.905)
Tax_Free										-0.8650*
										(-1.897)
Firm Characteristics:										
Size	-0.0568	0.0427	-0.0807	-0.1319**	-0.1611**	-0.1307*	-0.0879**	-0.0641	-0.0629	0.0911
	(-0.869)	(0.523)	(-1.100)	(-2.031)	(-2.168)	(-1.929)	(-2.073)	(-1.490)	(-1.463)	(0.930)
ROA	0.3180*	0.2988	0.3657*	0.2512	0.3256*	0.2607	0.0215	-0.0182	-0.0140	0.3849
	(1.835)	(1.247)	(1.765)	(1.459)	(1.786)	(1.504)	(0.356)	(-0.289)	(-0.220)	(1.491)

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Leverage	0.0973**	0.0913***	0.1058**	0.1007***	0.0945***	0.0890***	0.1072***	0.1080***	0.1193***	0.1358***
	(2.309)	(3.000)	(2.091)	(2.668)	(3.058)	(2.703)	(2.918)	(2.960)	(3.252)	(2.958)
Volatility	12.5712	-20.2581	-4.8213	5.5104	-6.1030	3.3427	19.0935*	20.7381*	21.9243**	-4.7750
	(0.880)	(-1.442)	(-0.365)	(0.400)	(-0.429)	(0.242)	(1.884)	(1.959)	(2.000)	(-0.250)
MB_Ratio	-0.0227	-0.0101	0.0189	0.0057	0.0089	0.0079	0.0141	0.0078	0.0044	-0.0424
	(-0.794)	(-0.342)	(0.708)	(0.226)	(0.315)	(0.305)	(0.856)	(0.425)	(0.240)	(-1.106)
Market Condition:										
Recession	4.9687***	5.5978***	5.1056***	4.8465***	3.7978***	4.7879***	-0.3362	-0.5425	-0.6047	-0.7384
	(4.403)	(5.052)	(5.875)	(4.675)	(3.397)	(4.949)	(-0.578)	(-0.863)	(-0.958)	(-0.731)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Cons.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	98	98	98	98	98	98	208	202	202	91
Pseudo R2	0.38	0.42	0.34	0.27	0.34	0.27	0.29	0.33	0.33	0.49

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Table 3. 13 – Board Composition and Probability of Spinoff Incompletion (Full sample from 2009-2016)

This table shows the Probit regression analyses of the relationship between the likelihood of spinoff incompletion and board composition, and other deal and firm attributes for announced spinoffs between July 1st, 2009 and December 31st, 2016. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (whether abandoned or withdrawn) and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance levels, respectively. Please refer to Table 3.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Board Attributes:										
Board Independence	-1.3711									-3.3797***
	(-1.346)									(-2.696)
Ln(Board_Size)		0.2686								1.8327***
		(0.533)								(2.667)
Board_Diversity			-0.8731							-1.4982
			(-0.676)							(-0.956)
CEO_Duality				0.6156***						0.8331***
				(2.590)						(3.108)
Ln(Board_Age)					-1.9806*					-1.8518
					(-1.749)					(-1.219)
Ln(Board_Tenure)						-0.2467				-0.1917
						(-1.032)				(-0.630)
Ownership Structure:										
Inst_Block_Own							1.0413		0.9985	0.7422
							(1.511)		(1.439)	(0.887)
Deal Characteristics:										
CAR								-3.1855*	-2.9711*	-3.3763*
								(-1.877)	(-1.724)	(-1.762)
Focus								-0.0658	-0.0414	0.0650
								(-0.286)	(-0.178)	(0.243)
High_Tech								0.1445	0.2073	0.3137
								(0.552)	(0.782)	(0.999)
Tax_Free										-1.1676***
										(-4.236)
Firm Characteristics:										
Size	-0.0626	-0.1019*	-0.0738	-0.0799	-0.0982*	-0.0823	-0.0779*	-0.0538	-0.0503	-0.0444
	(-1.135)	(-1.655)	(-1.341)	(-1.527)	(-1.935)	(-1.624)	(-1.659)	(-1.227)	(-1.149)	(-0.682)
ROA	0.0130	0.0326	0.0200	0.0172	0.0189	0.0243	0.0224	0.0335	0.0241	-0.0514
	(0.177)	(0.440)	(0.272)	(0.225)	(0.245)	(0.330)	(0.318)	(0.447)	(0.315)	(-0.527)
Leverage	-0.0378	-0.0412	-0.0365	-0.0287	-0.0376	-0.0370	-0.0345	-0.0322	-0.0339	-0.0155

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	(-1.100)	(-1.261)	(-1.063)	(-0.900)	(-1.137)	(-1.085)	(-0.942)	(-0.961)	(-0.968)	(-0.390)
Volatility	-0.2395	-1.3295	-2.3848	-0.2091	-2.7666	-2.6673	-3.1578	-3.4173	-4.3307	8.2574
	(-0.021)	(-0.114)	(-0.209)	(-0.019)	(-0.235)	(-0.229)	(-0.284)	(-0.316)	(-0.394)	(0.632)
MB Ratio	0.0035	0.0090	0.0081	-0.0015	0.0041	0.0045	0.0040	0.0010	0.0034	-0.0207
	(0.194)	(0.509)	(0.453)	(-0.086)	(0.227)	(0.248)	(0.236)	(0.054)	(0.193)	(-1.060)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Cons.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	145	145	145	145	145	145	162	161	161	145
Pseudo R2	0.08	0.08	0.08	0.11	0.09	0.08	0.06	0.05	0.06	0.29

Table 3. 14 – Board Composition and Probability of Spinoff Abandonment (Incomplete Spinoffs Sub-sample from 2009-2016)

This table shows the Probit regression analyses of the relationship between the likelihood of spinoff abandonment and board composition, and other deal and firm attributes for announced spinoffs between July 1st, 2009 and December 31st, 2016. We report the estimated coefficients and their t-statistics. Dependent variable is Abandoned Dummy equal to 1 if the spinoff is neither officially withdrawn nor completed at least 458 days after the announcement date, and zero otherwise. The number of days between the spinoff announcement date and completion date for the full sample during 1980-2016 is equal to 458 days at the 90th percentile. Models are estimated using heteroskedasticity robust standard errors. $*$, $**$ and $***$ denote the 10%, 5% and 1% significance levels, respectively. Please refer to Table 3.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Board Attributes:										
Board Independence	-4.8515*									-2.2039
	(-1.711)									(-1.210)
Ln(Board_Size)		-3.4977								-0.6551
		(-1.594)								(-0.438)
Board_Diversity			-16.2381***							-14.3458***
			(-2.950)							(-2.892)
CEO_Duality				-1.5563						0.5153
				(-1.150)						(0.520)
Ln(Board_Age)					-22.5150*					-0.8078
					(-1.850)					(-0.250)
Ln(Board_Tenure)						-3.6310**				-0.9422*
						(-2.149)				(-1.753)
Ownership Structure:										
Inst_Block_Own							-1.4697		-0.0294	-0.4474
							(-0.988)		(-0.025)	(-0.273)
Deal Characteristics:										
CAR								3.5492	3.5375	2.1587
								(1.090)	(1.066)	(0.531)
Focus								-0.4103	-0.4115	0.7096
								(-0.918)	(-0.914)	(1.467)
High_Tech								0.2186	0.2156	-0.0230
								(0.402)	(0.394)	(-0.037)
Tax_Free										0.7681
										(1.135)
Firm Characteristics:										
Size	0.1292	0.2588	0.5386**	0.0078	-0.1522	0.1285	-0.0758	-0.0215	-0.0216	0.4794***
	(0.692)	(1.180)	(2.501)	(0.060)	(-0.926)	(0.654)	(-0.803)	(-0.244)	(-0.246)	(2.828)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
ROA	1.2951**	1.6655**	1.2192***	2.0960**	3.5563**	5.6696***	0.2238	0.0802	0.0811	1.3376***
	(2.121)	(2.202)	(2.634)	(2.261)	(2.486)	(4.108)	(1.272)	(0.486)	(0.490)	(3.072)
Leverage	0.1419***	0.1623***	0.1539***	0.1385***	0.3082***	0.1998***	0.1254***	0.1129***	0.1132***	0.1568***
	(2.971)	(2.898)	(4.449)	(2.800)	(3.255)	(4.266)	(3.652)	(3.619)	(3.763)	(3.234)
Volatility	-41.8140	-44.2337	31.6203	-122.7994**	-167.0862**	-194.1099**	-31.0452	10.9281	10.9140	73.6595**
	(-0.978)	(-0.702)	(0.897)	(-2.098)	(-2.058)	(-1.966)	(-1.012)	(0.548)	(0.546)	(2.275)
MB Ratio	0.0365	0.0295	0.0883	0.1649***	0.2711**	0.1370**	0.0393	0.0165	0.0162	0.0252
	(0.604)	(0.464)	(1.630)	(2.660)	(2.516)	(2.558)	(1.138)	(0.474)	(0.463)	(0.498)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Cons.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	35	35	44	35	35	35	47	50	50	49
Pseudo R2	0.49	0.52	0.52	0.48	0.53	0.66	0.20	0.15	0.15	0.56

Table 4. 1 – Variables

This table presents the definition of dependent and independent variables used in this study. All variables in dollar unit are adjusted for inflation (1999 base-year) and the exchange rate (to convert to U.S. dollars).

Variable	Definition
Completed	Dummy equal to 1 if the spinoff is officially completed, and zero otherwise.
Withdrawn	Dummy equal to 1 if the spinoff is officially withdrawn, and zero otherwise.
Abandoned	Dummy equal to 1 if the spinoff is neither officially withdrawn nor completed at least 458 days after the announcement date, and zero otherwise[22].
Call	Dummy equal to 1 if the spinoff is accompanied by a conference call in the day or a day after the announcement.
LM	Loughran-McDonald Sentiment Word Lists (Loughran & McDonald, 2011).
POSITIVE	Total count of the *L.M.*'s positive and strong words divided by the total number of words in the transcript of conference call, presented as percentage.
NEGATIVE	Total count of the *L.M.*'s uncertain, weak, negative and litigious words divided by the total number of words in the transcript of conference call, presented as percentage.
Neg-to-Pos	Ratio of *NEGATIVE* divided by *POSITIVE*, presented as percentage.
Focus	Dummy equal to 1 when 2-digit SIC code of parent and unit are different, and zero otherwise.
High_Tech	Dummy equal to 1 for parent firms in high-technology industries (with 2-digit SIC code of 28,35,36,73,87), and zero otherwise.
MB_Ratio	Industry-adjusted (4-digit SIC code) market-to-book of equity for parent firm, averaged over years -2 and -1 relative to the announcement year.

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[22] The number of days between spinoff announcement date and completion date for the full sample during 1980-2016 is equal to 458 days at the 90th percentile.

ROA	Industry-adjusted (4-digit SIC code) return on assets for parent firm, averaged over years -2 and -1 relative to the announcement year. Return is earnings before interest, tax, depreciation and amortization.
Leverage	Industry-adjusted (4-digit SIC code) total debt divided by total assets in book value, averaged over years -2 and -1 relative to the announcement year.
Size	Industry-adjusted (4-digit SIC code) natural logarithm of total assets of parent averaged over years -2 and -1 relative to the announcement year.
Volatility	Standard deviation of daily returns for the ninety trading-day period ending 10 days prior to the announcement date.
Board_Independence	Percentage of non-executive directors (NEDs) over total board members at the beginning of the announcement year.
Board_Diversity	Percentage of female directors over total board members at the beginning of the announcement year.
Board_Age	Average age of non-executive directors at the beginning of the announcement year.
Board_Tenure	Average tenure of non-executive directors in the company at the beginning of the announcement year.
CEO_duality	Dummy variable equal to 1 if CEO is also chairman of the board and 0 otherwise at the beginning of the announcement year.
Board_Size	Number of all board members at the beginning of the announcement year.
Inst_Block_Own	Percentage of institutional block ownership according to the 13f filing records before the announcement date.
CAR	Three-day cumulative abnormal return around the announcement date, (-1, +1).
Relative_Size	Market cap of the spun-off unit divided by the sum of market cap of the parent and of the spunoff firm for completed sub-sample on the day of completion (effective date).
Tax_Free	Dummy equal to 1 if spinoff is considered tax-free according to section 355 of the United States Internal Revenue Code (IRC), and zero otherwise.
Recession Period	U.S. recession periods: January 1st, 1980-July 31st, 1980; July 1st, 1981-November 30th, 1982; July 1st, 1990-March 31st, 1991; March1st, 2001-November 30th, 2001; December 1st, 2007-June 30th, 2009. Source: *National Bureau of Economic Research* (*NBER*).

Table 4. 2 – Sample Selection

This table present the sample selection process.

Target Sample	Unique Spinoffs
All U.S. corporate spinoff announcements during 2002 to 2016	871
Exclusion of financial services, utilities, and other firms with missing data	(171)
Final Sample	**700**

Table 4. 3 – Sample Distribution

Panel A - Observations by sample year

This panel presents the yearly distribution of announced spinoffs with or without a conference call on the day
or day after the announcement.

	No Call	With Call	Total	No Call	With Call	Total	No Call	With Call	Total
	Freq.	Freq.	Freq.	%	%	%	%	%	%
Year Announced									
2002	40	2	42	6.5	2.3	6.0	95.2	4.8	100.0
2003	37	4	41	6.0	4.5	5.9	90.2	9.8	100.0
2004	41	1	42	6.7	1.1	6.0	97.6	2.4	100.0
2005	41	4	45	6.7	4.5	6.4	91.1	8.9	100.0
2006	39	5	44	6.4	5.7	6.3	88.6	11.4	100.0
2007	69	4	73	11.3	4.5	10.4	94.5	5.5	100.0
2008	54	5	59	8.8	5.7	8.4	91.5	8.5	100.0
2009	40	3	43	6.5	3.4	6.1	93.0	7.0	100.0
2010	32	2	34	5.2	2.3	4.9	94.1	5.9	100.0
2011	47	6	53	7.7	6.8	7.6	88.7	11.3	100.0
2012	36	6	42	5.9	6.8	6.0	85.7	14.3	100.0
2013	48	10	58	7.8	11.4	8.3	82.8	17.2	100.0
2014	47	17	64	7.7	19.3	9.1	73.4	26.6	100.0
2015	26	13	39	4.2	14.8	5.6	66.7	33.3	100.0
2016	15	6	21	2.5	6.8	3.0	71.4	28.6	100.0
Total	612	88	700	100.0	100.0	100.0	87.4	12.6	100.0

Panel B - Observations before and after 2010

This panel shows the breakdown of announced spinoffs with and without conference calls before and after recent financial crisis.

	No Call	With Call	Total	No Call	With Call	Total	No Call	With Call	Total
2002 - 2009	361	28	389	59.0	31.8	55.6	92.8	7.2	100.0
2010 - 2016	251	60	311	41.0	68.2	44.4	80.7	19.3	100.0
Total	612	88	700	100.0	100.0	100.0	87.4	12.6	100.0

Panel C - Observations by firm characteristics

This panel presents distribution of announced spinoffs based on the completion status, focus-increasing nature of spinoff, parent firm's high-tech industry, and different industries.

	No Call	With Call	Total	No Call	With Call	Total	No Call	With Call	Total
Spin-off Status									
Completed	338	71	409	55.2	80.7	58.4	82.6	17.4	100.0
Withdrawn	44	6	50	7.2	6.8	7.1	88.0	12.0	100.0
Abandoned	230	11	241	37.6	12.5	34.4	95.4	4.6	100.0
Total	612	88	700	100.0	100.0	100.0	87.4	12.6	100.0
Focus_Increasing									
Not Focus Increasing	300	47	347	49.0	53.4	49.6	86.5	13.5	100.0
Focus Increasing	312	41	353	51.0	46.6	50.4	88.4	11.6	100.0
Total	612	88	700	100.0	100.0	100.0	87.4	12.6	100.0
High_Tech Parent									
No	319	52	371	52.1	59.1	53.0	86.0	14.0	100.0
Yes	293	36	329	47.9	40.9	47.0	89.1	10.9	100.0
Total	612	88	700	100.0	100.0	100.0	87.4	12.6	100.0
Industry									
Mining and construction	54	4	58	8.8	4.5	8.3	93.1	6.9	100.0
Manufacturing	408	62	470	66.7	70.5	67.1	86.8	13.2	100.0
Agriculture	1	0	1	0.2	0.0	0.1	100.0	0.0	100.0
Transportation and communication	63	11	74	10.3	12.5	10.6	85.1	14.9	100.0
Trade, retail and wholesale	43	2	45	7.0	2.3	6.4	95.6	4.4	100.0
Service	43	9	52	7.0	10.2	7.4	82.7	17.3	100.0
Total	612	88	700	100.0	100.0	100.0	87.4	12.6	100.0

Table 4. 4 – Summary statistics

This table gives descriptive statistics for the full sample. Please refer to Table 4.1 for variable definitions.

	Obs.	Mean	StDev	Min	Median	Max
Firm Characteristics:						
Size (Ln)	404	1.4150	3.5619	-10.6000	1.5300	9.8900
Size_Completed (Ln)	252	1.9621	3.2356	-9.2600	1.9800	9.8900
Size_Withdrawn (Ln)	40	1.8332	3.8765	-7.6000	1.6450	7.5400
Size_Abandoned (Ln)	112	0.0346	3.8006	-10.6000	0.2900	7.3700
MB_Ratio	385	1.5561	10.8811	-50.6900	0.4700	56.1400
ROA	404	0.9221	2.6307	-15.7800	0.2200	17.5200
Leverage	404	-0.1783	4.5985	-35.1700	0.0200	31.0900
Volatility	308	0.0202	0.0093	0	0.0200	0.0400
Relative_Size	190	0.2387	0.1829	0.0100	0.1900	0.9200
Market Reaction:						
CAR	319	0.0255	0.0881	-0.6599	0.0242	0.5342
CAR_Completed	200	0.0357	0.0857	-0.3140	0.0275	0.5342
CAR_Withdrawn	34	-0.0119	0.1317	-0.6599	0.0032	0.1547
CAR_Abandoned	85	0.0164	0.0652	-0.2835	0.0242	0.1806
Ownership Structure:						
Inst_Block_Own	700	0.0537	0.1150	0	0	0.8073
Board Composition:						
Board_Size	344	9.1744	3.1006	1	9	20
Board_Independence	344	0.7955	0.1713	0	0.8571	1
Board_Diversity	344	0.1156	0.1112	0	0.1110	0.6670
Board_Age	336	63.5431	6.5789	41	63.1493	85
Board_Tenure	336	6.8926	4.0622	0	6.6450	22
Conference Call:						
WC	87	8376.4368	3668.7123	2004	8014	27700
NEGATIVE (%)	87	1.9951	0.3325	1.3500	1.9900	2.9700
POSITIVE (%)	87	2.4692	0.5822	1.2200	2.4400	4.1000
Neg-to-Pos (%)	87	0.8649	0.2903	0.4563	0.8054	1.7541

Table 4. 5 – Distribution of Spinoff announcement based on Completion and Tax Status (Full Sample)

This table shows the distribution of announced spinoffs based on their completion status, conference call, and tax status. Panel A presents the frequency and Panel B shows the percentage.

Panel A – Frequency	No Conference Calls		With Conference Calls		Total	
	Tax-free	Taxable	Tax-free	Taxable	Tax-free	Taxable
Current Status of Spin-offs						
Completed	188	150	9	62	197	212
Withdrawn	32	12	4	2	36	14
Abandoned	207	23	5	6	212	29
Total	**427**	**185**	**18**	**70**	**445**	**255**

Panel B – Percentage	No Conference Calls		With Conference Calls		Total	
	Tax-free	Taxable	Tax-free	Taxable	Tax-free	Taxable
Current Status of Spin-offs						
Completed	44.0%	81.1%	50.0%	88.6%	44.3%	83.1%
Withdrawn	7.5%	6.5%	22.2%	2.9%	8.1%	5.5%
Abandoned	48.5%	12.4%	27.8%	8.6%	47.6%	11.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Table 4. 6 – Correlation Matrix

This table shows the Pearson correlation coefficients for the main variables for non-missing data items for the full sample. Please refer to Table 4.1 for variable definitions. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance level respectively.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	WC	1.000														
2	Neg-to-Pos	-0.080	1.000													
3	Board_Size	0.006	0.010	1.000												
4	Board_Independence	0.226	-0.065	0.383***	1.000											
5	Board_Diversity	0.101	-0.366**	0.294**	0.373***	1.000										
6	Board_Age	-0.007	-0.247*	0.156	0.013	0.297**	1.000									
7	Board_Tenure	-0.131	0.001	0.290**	0.233	0.124	0.324**	1.000								
8	CAR	0.178	-0.313**	-0.235	-0.090	0.106	-0.102	-0.085	1.000							
9	Inst_Block_Own	-0.169	-0.085	-0.024	-0.118	0.171	0.290**	-0.014	-0.112	1.000						
10	Size	0.120	0.038	0.465***	0.188	0.135	-0.066	0.264*	0.004	-0.112	1.000					
11	MB_Ratio	-0.027	-0.255*	0.094	0.178	0.181	-0.210	-0.001	-0.128	-0.019	0.027	1.000				
12	ROA	-0.070	-0.183	0.163	0.123	0.106	0.116	0.006	-0.067	0.211	0.107	-0.036	1.000			
13	Leverage	0.052	0.132	-0.421***	0.031	-0.175	0.032	-0.281*	0.001	0.032	-0.153	-0.104	0.134	1.000		
14	Volatility	-0.208	0.119	-0.165	-0.344**	-0.116	0.214	-0.025	-0.101	0.178	-0.238	0.038	0.005	0.084	1.000	
15	Relative_Size	0.149	0.179	-0.119	0.327**	-0.090	-0.136	0.016	-0.029	-0.183	-0.023	-0.057	-0.041	0.163	0.121	1.000

Table 4. 7 – Existence of conference call and the Probability of Spinoff Incompletion (Full sample)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and existence of conference calls and other deal and firm attributes. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. *, ** and *** denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
Call	-0.5414***	-0.2907	-0.5024**	-0.5455***	-0.2832
	(-2.632)	(-1.326)	(-2.262)	(-2.646)	(-1.284)
Deal Characteristics:					
CAR		-2.1121**			-2.5517***
		(-2.150)			(-2.800)
Focus		-0.3447*			-0.3039*
		(-1.949)			(-1.670)
High_Tech		-0.1331			-0.1295
		(-0.668)			(-0.639)
Tax_Free		-1.3210***			-1.2832***
		(-7.149)			(-6.591)
Board Attributes:					
Board_Independence			-1.2259		-0.7067
			(-1.285)		(-0.743)
Ln (Board_Size)			0.2440		0.3387
			(0.574)		(0.811)
Board_Diversity			-0.0663		0.3790
			(-0.060)		(0.332)
CEO_Duality			0.4507**		0.4021**
			(2.332)		(2.100)
Ln (Board_Age)			-1.9788**		-1.2901
			(-2.087)		(-1.230)
Ln (Board_Tenure)			-0.2242		-0.1155
			(-1.263)		(-0.596)
Ownership Structure:					
Inst_Block_Own				0.1282	0.2142
				(0.217)	(0.354)
Firm Characteristics:					
Size	-0.0447	0.0014	-0.0597	-0.0442	-0.0333
	(-1.452)	(0.043)	(-1.463)	(-1.434)	(-0.791)
ROA	0.0069	-0.0086	-0.0082	0.0062	-0.0077

	(0.156)	(-0.176)	(-0.170)	(0.139)	(-0.142)
Leverage	0.0158	0.0007	0.0241	0.0156	0.0082
	(0.389)	(0.015)	(0.546)	(0.385)	(0.178)
Volatility	-5.0526	-7.2078	-1.1848	-5.3718	-0.9104
	(-0.566)	(-0.702)	(-0.114)	(-0.597)	(-0.088)
MB Ratio	-0.0005	-0.0150	0.0009	-0.0003	-0.0104
	(-0.053)	(-1.475)	(0.085)	(-0.037)	(-0.846)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	293	288	264	293	261
Pseudo R2	0.09	0.23	0.15	0.09	0.24

Table 4. 8 – Ratio of Negative to Positive Tone of conference call and the Probability of Spinoff Incompletion (Full sample)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and ratio of negative to positive sentiment of conference calls. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
Neg-to-Pos	1.4849	-0.7357	1.4062	1.5672	-2.5267**
	(1.481)	(-0.677)	(1.254)	(1.473)	(-1.992)
Deal Characteristics:					
CAR		-14.0201**			-10.9236***
		(-2.489)			(-3.362)
Focus		-1.5329**			-0.1557
		(-2.450)			(-0.347)
High_Tech		-0.9500*			-0.2322
		(-1.742)			(-0.490)
Tax_Free		-2.3957***			-2.7424***
		(-2.763)			(-3.748)
Board Attributes:					
Board_Independence			-4.1503		6.5044
			(-0.795)		(1.489)
Ln (Board_Size)			2.7075		0.1864
			(1.590)		(0.180)
Board_Diversity			6.5127*		4.3490
			(1.897)		(1.375)
CEO_Duality			0.7623		1.1413**
			(1.603)		(2.299)
Ln (Board_Age)			-8.2505*		-9.1745***
			(-1.942)		(-3.162)
Ln (Board_Tenure)			0.0260		-0.0674
			(0.031)		(-0.116)
Ownership Structure:					
Inst_Block_Own				1.7128	1.9456
				(1.146)	(1.159)
Firm Characteristics:					
Size	0.1006	0.0016	0.0322	0.1020	0.0299

	(0.959)	(0.015)	(0.231)	(0.996)	(0.329)
ROA	0.0555	0.0868	0.1164*	0.0474	0.1168*
	(0.791)	(1.028)	(1.697)	(0.632)	(1.682)
Leverage	0.4188	0.0640	0.8547	0.3918	-0.2002
	(1.254)	(0.151)	(1.641)	(1.080)	(-0.458)
Volatility	-6.7790	17.3606	10.1006	-15.9496	52.5732
	(-0.235)	(0.456)	(0.295)	(-0.532)	(1.176)
MB Ratio	-0.0029	-0.0243	-0.0248	-0.0012	-0.0241
	(-0.135)	(-0.846)	(-1.143)	(-0.053)	(-0.917)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	53	60	49	53	68
Pseudo R2	0.19	0.45	0.34	0.21	0.44

Table 4. 9 – Positive Tone of conference call and the Probability of Spinoff Incompletion (Full sample)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and ratio of positive sentiment of conference calls. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. *, ** and *** denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
POSITIVE	-0.5777	0.0575	-0.4274	-0.8069	1.0117*
	(-1.115)	(0.110)	(-0.633)	(-1.473)	(1.811)
Deal Characteristics:					
CAR		-13.1368**			-10.3710***
		(-2.500)			(-2.787)
Focus		-1.4427**			-0.2013
		(-2.272)			(-0.469)
High_Tech		-0.8950*			-0.2451
		(-1.742)			(-0.507)
Tax_Free		-2.0562***			-2.4234***
		(-2.792)			(-4.079)
Board Attributes:					
Board_Independence			-3.2158		5.3092
			(-0.627)		(1.344)
Ln (Board_Size)			2.4679		0.3859
			(1.359)		(0.321)
Board_Diversity			6.0912*		5.1952*
			(1.923)		(1.871)
CEO_Duality			0.8142*		1.1279**
			(1.690)		(2.138)
Ln (Board_Age)			-7.3941*		-9.7863***
			(-1.942)		(-2.712)
Ln (Board_Tenure)			-0.0507		-0.1516
			(-0.064)		(-0.270)
Ownership Structure:					
Inst_Block_Own				2.2871	1.5293
				(1.433)	(0.909)
Firm Characteristics:					
Size	0.0769	0.0083	0.0261	0.0736	0.0617
	(0.734)	(0.082)	(0.188)	(0.717)	(0.590)
ROA	0.0681	0.0932	0.1240	0.0616	0.1262*

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	(0.971)	(1.098)	(1.559)	(0.805)	(1.743)
Leverage	0.3813	0.1089	0.7300	0.3546	-0.0660
	(1.191)	(0.274)	(1.494)	(1.046)	(-0.158)
Volatility	1.9217	13.9657	26.3698	-12.2510	47.1498
	(0.073)	(0.394)	(0.803)	(-0.436)	(1.273)
MB Ratio	-0.0102	-0.0195	-0.0298	-0.0078	-0.0142
	(-0.485)	(-0.700)	(-1.250)	(-0.363)	(-0.519)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	53	60	49	53	68
Pseudo R2	0.18	0.44	0.32	0.21	0.44

Table 4. 10 – Negative Tone of conference call and the Probability of Spinoff Incompletion (Full sample)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and ratio of negative sentiment of conference calls. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
NEGATIVE	0.7459	-0.6610	0.9473	0.5917	-0.7959
	(1.081)	(-0.714)	(0.960)	(0.832)	(-1.055)
Deal Characteristics:					
CAR		-13.3684**			-7.6715**
		(-2.470)			(-2.447)
Focus		-1.5247***			-0.0283
		(-2.598)			(-0.070)
High_Tech		-0.7649			0.1071
		(-1.520)			(0.251)
Tax_Free		-2.2747***			-1.9635***
		(-3.018)			(-3.649)
Board Attributes:					
Board_Independence			-3.8615		4.5443
			(-0.883)		(1.248)
Ln (Board_Size)			2.7765*		0.6281
			(1.798)		(0.594)
Board_Diversity			7.0871**		3.9048
			(1.974)		(1.143)
CEO_Duality			0.6729		0.9902**
			(1.396)		(2.190)
Ln (Board_Age)			-8.6434**		-6.8365**
			(-2.008)		(-2.228)
Ln (Board_Tenure)			-0.3523		0.1116
			(-0.398)		(0.189)
Ownership Structure:					
Inst_Block_Own				0.9715	2.4489
				(0.655)	(1.580)
Firm Characteristics:					
Size	0.0709	-0.0131	0.0122	0.0683	-0.0069
	(0.663)	(-0.131)	(0.087)	(0.644)	(-0.074)
ROA	0.0410	0.0878	0.1030	0.0364	0.1169*

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	(0.610)	(1.054)	(1.489)	(0.526)	(1.722)
Leverage	0.3129	0.1394	0.6396	0.2839	-0.0390
	(0.873)	(0.349)	(1.245)	(0.768)	(-0.099)
Volatility	4.6608	9.1440	25.1306	1.3334	20.0098
	(0.167)	(0.247)	(0.670)	(0.047)	(0.557)
MB Ratio	-0.0067	-0.0300	-0.0298	-0.0083	-0.0237
	(-0.313)	(-0.992)	(-1.305)	(-0.384)	(-0.872)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	53	60	49	53	68
Pseudo R2	0.16	0.45	0.32	0.17	0.41

Table 4. 11 – Existence of conference call and the Probability of Spinoff Incompletion (excluding recession period)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and existence of conference calls when announced spinoffs during recession periods are excluded from the sample. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
Call	-0.6830***	-0.5267**	-0.6197**	-0.6879***	-0.5005**
	(-3.089)	(-2.279)	(-2.530)	(-3.107)	(-2.136)
Deal Characteristics:					
CAR		-2.2760**			-2.6547***
		(-2.171)			(-2.618)
Focus		-0.3014			-0.2357
		(-1.602)			(-1.226)
High_Tech		-0.0596			-0.0341
		(-0.277)			(-0.154)
Tax_Free		-1.3463***			-1.3106***
		(-6.736)			(-6.337)
Board Attributes:					
Board_Independence			-1.2436		-0.4684
			(-1.250)		(-0.469)
Ln (Board_Size)			0.3469		0.3942
			(0.738)		(0.879)
Board_Diversity			-0.5755		-0.1141
			(-0.500)		(-0.095)
CEO_Duality			0.4013*		0.2937
			(1.931)		(1.445)
Ln (Board_Age)			-2.0812**		-1.3075
			(-2.051)		(-1.185)
Ln (Board_Tenure)			-0.1830		-0.0711
			(-1.011)		(-0.355)
Ownership Structure:					
Inst_Block_Own				0.1503	0.1673
				(0.243)	(0.260)
Firm Characteristics:					
Size	-0.0585*	-0.0051	-0.0763*	-0.0577*	-0.0468
	(-1.767)	(-0.147)	(-1.680)	(-1.738)	(-0.947)
ROA	0.0060	-0.0292	-0.0093	0.0049	-0.0294

	(0.129)	(-0.537)	(-0.176)	(0.105)	(-0.430)
Leverage	0.0125	0.0010	0.0176	0.0124	0.0088
	(0.309)	(0.021)	(0.410)	(0.306)	(0.187)
Volatility	-5.7836	-8.6596	-0.5006	-6.1024	-1.8649
	(-0.621)	(-0.798)	(-0.046)	(-0.649)	(-0.168)
MB Ratio	0.0012	-0.0141	0.0060	0.0013	-0.0068
	(0.128)	(-1.330)	(0.557)	(0.143)	(-0.533)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	266	261	238	266	235
Pseudo R2	0.11	0.25	0.16	0.11	0.25

Table 4. 12 – Ratio of Negative to Positive Tone of conference call and the Probability of Spinoff Incompletion (excluding recession period)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and Negative to Positive Tone of conference calls when announced spinoffs during recession periods are excluded from the sample. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
Neg-to-Pos	0.9940	-1.7066	2.0952	1.2284	-4.2929**
	(0.930)	(-1.289)	(1.508)	(1.159)	(-2.337)
Deal Characteristics:					
CAR		-13.0176*			-18.3650***
		(-1.950)			(-2.683)
Focus		-1.2460*			-0.6765
		(-1.903)			(-0.822)
High_Tech		-0.6924			-0.3908
		(-1.213)			(-0.687)
Tax_Free		-2.6877***			-5.2082***
		(-2.760)			(-3.440)
Board Attributes:					
Board_Independence			-13.1008		15.6241*
			(-1.522)		(1.680)
Ln (Board_Size)			13.4684**		-0.3168
			(2.279)		(-0.155)
Board_Diversity			-13.8532		2.5204
			(-1.491)		(0.773)
CEO_Duality			4.2427**		0.6236
			(2.514)		(1.052)
Ln (Board_Age)			-0.9828		-3.2634
			(-0.169)		(-0.775)
Ln (Board_Tenure)			3.6086		0.6430
			(1.631)		(0.561)
Ownership Structure:					
Inst_Block_Own				2.2572	4.9714
				(1.363)	(1.496)
Firm Characteristics:					
Size	0.1967*	0.0409	0.9025***	0.2005*	0.0691

	(1.653)	(0.323)	(2.688)	(1.745)	(0.674)
ROA	0.0010	0.0102	0.2221**	-0.0084	0.0070
	(0.012)	(0.135)	(2.099)	(-0.085)	(0.079)
Leverage	0.8185	1.3124	5.6097**	0.8910	3.1954
	(1.627)	(1.638)	(2.392)	(1.635)	(1.419)
Volatility	19.5250	40.4422	79.5290	9.6641	42.2925
	(0.693)	(0.984)	(1.555)	(0.331)	(0.863)
MB Ratio	-0.0075	-0.0145	-0.0373	-0.0050	0.0054
	(-0.339)	(-0.447)	(-0.588)	(-0.220)	(0.169)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	48	55	44	48	62
Pseudo R2	0.20	0.46	0.43	0.23	0.54

Table 4. 13 – Positive Tone of conference call and the Probability of Spinoff Incompletion (excluding recession period)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and Positive Tone of conference calls when announced spinoffs during recession periods are excluded from the sample. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. $*$, $**$ and $***$ denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
POSITIVE	-0.0972	0.7888	-0.6448	-0.3643	2.1395**
	(-0.185)	-1.354	(-1.064)	(-0.629)	-2.496
Deal Characteristics:					
CAR		-11.9626*			-14.7132**
		(-1.903)			(-2.361)
Focus		-1.0268			-0.9201
		(-1.580)			(-1.222)
High_Tech		-0.8048			-0.8257
		(-1.393)			(-1.347)
Tax_Free		-2.3483***			-4.6183***
		(-2.938)			(-2.846)
Board Attributes:					
Board_Independence			-10.7385		11.0286*
			(-1.403)		-1.694
Ln (Board_Size)			11.6412**		-0.3528
			-2.138		(-0.186)
Board_Diversity			-9.5114		2.4635
			(-1.213)		-0.863
CEO_Duality			3.5310**		0.5467
			-2.186		-0.793
Ln (Board_Age)			0.1429		-6.332
			-0.031		(-1.587)
Ln (Board_Tenure)			2.5568		-0.2073
			-1.562		(-0.268)
Ownership Structure:					
Inst_Block_Own				2.3128	4.547
				-1.334	-1.563
Firm Characteristics:					
Size	0.1799	0.1033	0.7238**	0.1677	0.2137
	-1.498	-0.77	-2.343	-1.43	-1.301
ROA	-0.0033	-0.0001	0.1954*	-0.0047	0.0182

	(-0.043)	(-0.001)	-1.869	(-0.052)	-0.197
Leverage	0.81	1.302	4.4451**	0.8527	1.7774
	-1.54	-1.472	-2.263	-1.52	-1.293
Volatility	29.919	52.6718	102.9942**	15.489	76.5878
	-1.121	-1.292	-2.19	-0.549	-1.521
MB Ratio	-0.0157	-0.0052	-0.0469	-0.0125	0.0141
	(-0.698)	(-0.158)	(-0.868)	(-0.568)	-0.548
Year F.E.	Yes	Yes	Yes	Yes	No
Industry F.E.	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	48	55	44	48	62
Pseudo R2	0.18	0.45	0.4	0.21	0.57

Table 4. 14 – Negative Tone of conference call and the Probability of Spinoff Incompletion (excluding recession period)

This table shows the Probit regression analyses of the relationship between likelihood of spinoff incompletion and Negative Tone of conference calls when announced spinoffs during recession periods are excluded from the sample. We report the estimated coefficients and their t-statistics. Dependent variable is a dummy variable equal to 1 if the spinoff is incomplete (wither abandoned or withdrawn), and zero otherwise. Models are estimated using heteroskedasticity robust standard errors. ∗, ∗∗ and ∗∗∗ denote the 10%, 5% and 1% significance level respectively. Please refer to Table 4.1 for variable definitions.

	Model 1	Model 2	Model 3	Model 4	Model 5
NEGATIVE	0.8375	-0.7113	1.1969	0.6009	-1.2788*
	(1.229)	(-0.716)	(1.150)	(0.863)	(-1.743)
Deal Characteristics:					
CAR		-10.9373**			-12.6355**
		(-2.038)			(-2.308)
Focus		-1.1328*			0.0154
		(-1.883)			(0.027)
High_Tech		-0.3537			0.4707
		(-0.682)			(0.926)
Tax_Free		-2.1070***			-3.3786***
		(-2.844)			(-3.981)
Board Attributes:					
Board_Independence			-11.5077*		9.7673
			(-1.822)		(1.077)
Ln (Board_Size)			12.9201***		0.5219
			(2.588)		(0.262)
Board_Diversity			-10.6585		1.8507
			(-1.307)		(0.536)
CEO_Duality			3.8618**		0.4979
			(2.533)		(0.937)
Ln (Board_Age)			-2.3098		1.3851
			(-0.419)		(0.358)
Ln (Board_Tenure)			2.2254		1.2585
			(1.311)		(1.151)
Ownership Structure:					
Inst_Block_Own				1.4960	5.9713*
				(0.886)	(1.911)
Firm Characteristics:					
Size	0.1864	0.0163	0.7870**	0.1805	-0.0087

	(1.583)	(0.137)	(2.372)	(1.565)	(-0.080)
ROA	-0.0136	0.0423	0.2052**	-0.0193	0.0219
	(-0.157)	(0.598)	(2.031)	(-0.215)	(0.294)
Leverage	0.7454	1.1183	4.4709**	0.8054	3.8917**
	(1.452)	(1.483)	(2.399)	(1.430)	(2.104)
Volatility	25.6724	25.7649	109.3655**	22.0346	-18.1631
	(0.915)	(0.650)	(2.252)	(0.800)	(-0.430)
MB Ratio	-0.0071	-0.0144	-0.0740	-0.0099	0.0063
	(-0.314)	(-0.444)	(-1.433)	(-0.423)	(0.196)
Year FE	Yes	Yes	Yes	Yes	No
Industry FE	Yes	No	Yes	Yes	No
Cons.	Yes	Yes	Yes	Yes	Yes
Obs.	48	55	44	48	62
Pseudo R2	0.19	0.44	0.39	0.21	0.51